

# EXHIBIT 21

## (Part 1 of 4)

## GENERAL DYNAMICS

December 21, 2006

**Via Federal Express**

Ms. Heather Lea  
Schlichter, Bogard & Denton  
100 South Fourth Street, Suite 900  
St. Louis, MO 63102

Re: Plan Information Requests for Eric Will

Dear Ms. Lea:

We are responding to your letter dated August 31, 2006, requesting information regarding your client, Eric Will and his participation in the General Dynamics Corporation Hourly Employees' Savings and Stock Investment Plan (the "SSIP"). Also please note that we have enclosed an invoice to cover the copying costs for materials that are provided with this letter. We have provided specific responses to each of your SSIP requests as follows:

1. All documents under which the Plan is established or operated including, but not limited to the Plan document and current Summary Plan Description, latest complete Annual Report, trust agreements, and contracts with service providers.

See the enclosed latest plan document and summary plan description. See the enclosed latest Form 5500, which does not include the Schedule SSA as it contains confidential information relating to various participants, such as Social Security numbers, benefit amounts, etc. See the enclosed latest trust agreement. Because the Employee Retirement Income Security Act of 1974 ("ERISA") does not require the disclosure of the additional information you have requested, we have not provided such information.

2. All investment guidelines or directives.

This information is described in the fund fact sheets of the SSIP's summary plan description that are provided pursuant to request (1) above.

3. Identify the operating expense ratio for each fund and trust in the Plan for the current year and for the last five years.

Based on the latest information available to the SSIP, the current operating expense ratio (generally determined by dividing the investment alternative's expenses by its total assets) for each SSIP investment alternative is shown in the table below:

December 21, 2006

Page 2

Investment Alternative	Operating Expense Ratio
Balanced Fund	0.18%
Bond Index Fund	0.24%
Fixed Income Fund	0.29%
S&P 500 Stock Index Fund	0.13%
Small Cap Index Fund	0.40%
GD Stock Fund	0.12%
Large Cap Value Fund	0.57%
Large Cap Growth Fund	0.45%

The information in the table above is more current than that contained in the fund fact sheets of the summary plan description which are provided pursuant to request (1) above and are updated on a quarterly basis and available upon request by calling the SSIP's automated telephone line at 1-888-432-3633.

4. List each service provider to the Plan, including but not limited to pension consultants, investment managers, record keepers, brokers, administrators, and trustees.

See Schedule C of the Form 5500 that is provided pursuant to request (1) above for a list of service providers to the SSIP.

5. Identify the compensation received by each service provider, including but not limited to all forms of compensation received from the Plan and from other providers through revenue-sharing or soft dollar arrangements, etc.

See Schedule C of the Form 5500 that is provided pursuant to request (1) above for a list of service providers paid by the SSIP as well as the compensation paid to each such service provider. Because ERISA does not require the disclosure of the additional information you have requested, we have not provided such information.

6. List all underlying assets or investments for each fund or trust in the Plan.

See the enclosed lists for each SSIP investment alternative. These lists are current as of September 30, 2006.

7. Identify any insurance contracts and describe the promised rate of return and any fees or expenses charged including wrap fees.

See the enclosed "Fixed Income Fund" fund fact sheet of the SSIP's summary plan description that is provided pursuant to request (1) above.

GD 00000661

December 21, 2006  
Page 3

8. If the Plan currently receives revenue sharing, please state how much the Plan has received for each of the past five years.

Because ERISA does not require the disclosure of the information you have requested, we have not provided such information.

9. Identify all expenses, if any, paid by the Plan Sponsor.

Because ERISA does not require the disclosure of the information you have requested, we have not provided such information.

10. Identify the gross yield and the net yield for each investment option in the Plan.

See the fund fact sheets of the SSIP's summary plan description that are provided pursuant to request (1) above for information on each investment alternative's net total return. Because ERISA does not require the disclosure of the additional information you have requested, we have not provided such information.

Sincerely,

GENERAL DYNAMICS CORPORATION



Henry C. Lickelberg  
Staff Vice President, Human Capital Processes

Encl.

GD 00000662

**Invoice for Copying Costs  
Relating to August 31, 2006 Request for  
Plan Information**

Participant: Eric Will

Plan: General Dynamics Corporation Hourly Employees' Savings & Stock Investment Plan

<u>Document</u>	<u>No. Pages</u>	<u>Rate</u>	<u>Total</u>
Plan Document	56	\$0.09/page	\$5.04
Summary Plan Description	no charge	no charge	\$0.00
Annual Report (Form 5500)	28	\$0.09/page	\$2.52
Trust Agreement	52	\$0.09/page	\$4.68
List of Underlying Fund Investments	13	\$0.09/page	\$1.17
Total	149	\$0.09/page	\$13.41

Please send a copy of this invoice and a check or money order in the amount of \$13.41, made payable to "General Dynamics Corporation", to the following address:

General Dynamics Corporation  
Attn: H. Eickelberg  
2941 Fairview Park Drive  
Suite 100  
Falls Church, VA 22042.

GD 00000663

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Suite 100  
Falls Church, VA 22042.

GD 00000664

1. All documents under which the Plan is established or operated including, but not limited to the Plan document and current Summary Plan Description, latest complete Annual Report, trust agreements, and contracts with service providers.

**MEMORANDUM OF PLAN ACTION**

WHEREAS, pursuant to the Corporate Policy regarding Delegation of Authority and Assignment of Responsibility dated May 3, 2006 (the "Corporate Policy"), the Chief Executive Officer (the "CEO") of General Dynamics Corporation (the "Company") has been delegated the authority to take certain actions with respect to employee benefit plans;

WHEREAS, pursuant to the same Corporate Policy, the CEO is authorized to delegate such authority to the Senior Vice President of Human Resources and Administration (the "Senior Vice President"), among others; and

WHEREAS, the CEO desires to take certain actions with respect to certain employee benefit plans maintained by the Company and its subsidiaries.

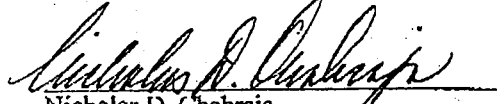
NOW, THEREFORE, BE IT RESOLVED, that the actions described in the following Appendices are hereby made effective as of the dates set forth therein:

1. Appendix 1 - Memorandum of Plan Adoption (qualified defined contribution plans of the Company)
2. Appendix 2 - Memorandum of Plan Amendment (Material Service Corporation)
3. Appendix 3 - Memorandum of Plan Adoption and Amendment (Anteon Corporation)
4. Appendix 4 - Delegation of Authority (Signing Authority)

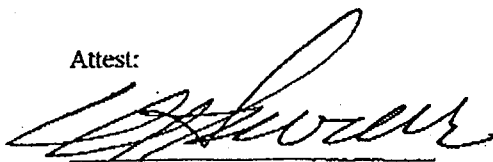
IN WITNESS WHEREOF, this Memorandum of Plan Action is executed as of the date indicated below.

Date: June 6, 2006

GENERAL DYNAMICS CORPORATION

  
Nicholas D. Chabraja  
Chairman of the Board of Directors and  
Chief Executive Officer

Attest:



David A. Savner  
Senior Vice President and  
General Counsel, Secretary

GD 00000666



**APPENDIX 1**

**MEMORANDUM OF PLAN ADOPTION**

**Adoption of the Savings and Stock Investment Plans.**

1. Effective January 1, 2006, General Dynamics Corporation (the "Company") adopts the General Dynamics Corporation Savings and Stock Investment Plan (as amended and restated effective January 1, 2006), attached hereto as Exhibit A.
2. Effective January 1, 2006, the Company adopts the General Dynamics Corporation Hourly Employees' Savings and Stock Investment Plan (as amended and restated effective January 1, 2006), attached hereto as Exhibit B.

**EXHIBIT B**

**GD 00000668**

**GENERAL DYNAMICS CORPORATION**  
**HOURLY EMPLOYEES'**  
**SAVINGS AND STOCK INVESTMENT PLAN**  
**(As Amended and Restated**  
**Effective as of January 1, 2006)**

**GD 00000669**

## TABLE OF CONTENTS

ARTICLE I INTRODUCTION & PLAN HISTORY.....	1
1.01 Introduction.....	1
1.02 History & Effective Date .....	1
1.03 Employers.....	1
1.04 Notices.....	2
1.05 Funding of Benefits .....	2
1.06 Exhibits and Plan Supplements .....	2
ARTICLE II DEFINITIONS .....	2
2.01 Account.....	2
2.02 Active Participant .....	3
2.03 Affiliated Group .....	3
2.04 After-Tax Contributions .....	3
2.05 Authorized Leave of Absence.....	3
2.06 Beneficiary.....	3
2.07 Company.....	3
2.08 Company Stock or Shares.....	4
2.09 Continuous Service.....	4
2.10 Contributions .....	4
2.11 Deferral Pay .....	4
2.12 Deferral Percentage.....	4
2.13 Disability.....	4
2.14 Effective Date .....	4
2.15 Eligible Employee .....	4
2.16 Employee .....	5
2.17 Employer or Employing Unit .....	5
2.18 Employer Contributions.....	5
2.19 401(k) Contributions.....	5
2.20 Highly Compensated Employee .....	5
2.21 Hour of Service.....	6
2.22 Inactive Participant .....	6
2.23 Internal Revenue Code and ERISA .....	6
2.24 Participant.....	6
2.25 Plan Administrator.....	6
2.26 Plan Year .....	6
2.27 Qualified Military Service .....	6
2.28 Spouse.....	6
2.29 Valuation Date.....	6
2.30 Vested Account.....	7
ARTICLE III PARTICIPATION.....	7
3.01 Eligibility and Commencement of Participation .....	7

GD 00000670

3.02	Active Participation .....	7
3.03	Inactive Participation .....	7
3.04	Limited Participation by Beneficiary or Alternate Payee .....	7
3.05	Termination of Participation .....	7
3.06	Transfer of Employment .....	8
3.07	Leased Employees .....	8
ARTICLE IV PARTICIPANT CONTRIBUTIONS .....		8
4.01	401(k) Contributions .....	8
4.02	Payment of Participant Contributions .....	9
4.03	After-Tax Contributions .....	9
4.04	Variation, Discontinuance and Resumption of Participant Contributions .....	9
4.05	Maximum Amount of Participant 401(k) Contributions .....	9
4.06	Limitation on Participant Compensation Deferral Contributions .....	9
4.07	Rollover Contributions .....	11
4.08	Vesting .....	12
4.09	Catch-up Contributions .....	12
ARTICLE V EMPLOYER CONTRIBUTIONS .....		12
5.01	Employer Matching Contributions .....	12
5.02	Employer Discretionary Contribution .....	13
5.03	Limitations on Employer Contributions .....	13
5.04	Payment of Employer Contributions .....	13
5.05	Verification of Employer Contributions .....	13
5.06	No Interest in Employers .....	13
ARTICLE VI INVESTMENT OF CONTRIBUTIONS .....		14
6.01	The Investment Funds .....	14
6.02	Investment Fund Elections .....	15
6.03	Five Year Transfer Rule .....	15
6.04	Investment Fund Transfers .....	15
6.05	Purchase of Company Stock .....	16
6.06	Voting of Company Stock .....	16
6.07	Tenders or Offers of Purchase for Company Stock .....	16
6.08	Additional Restrictions .....	20
6.09	Special Fiduciary Provisions Concerning Company Stock .....	20
ARTICLE VII VESTING AND FORFEITURES .....		20
7.01	General .....	20
7.02	Vested Account .....	20
7.03	Forfeitures .....	21
7.04	Value Upon Distribution .....	23
ARTICLE VIII DISTRIBUTIONS UPON RETIREMENT, TERMINATION OR DEATH .....		23
8.01	Right to Payment .....	23
8.02	Form of Payment .....	24

8.03	Distributions Made in Cash or Shares .....	25
8.04	Commencement of Payment .....	25
8.05	Deferral of Payment .....	26
8.06	Designation of Beneficiary .....	27
8.07	Special Rules for Distribution In Case of Death .....	27
8.08	Missing Participants or Beneficiaries .....	28
8.09	Direct Rollovers .....	28
8.10	Distribution to Alternate Payees .....	29
8.11	Loans to Participants .....	29
8.12	Hardship Withdrawal of Compensation Deferral Contributions .....	30
8.13	In-Service Withdrawals .....	31
8.14	ESOP Dividend Distribution Election .....	32
ARTICLE IX PLAN ACCOUNTING .....		33
9.01	Separate Accounts .....	33
9.02	Daily Accounting Dates .....	33
9.03	Adjustment of Participants' Accounts .....	33
9.04	Allocation of Employer Contributions .....	33
9.05	Crediting of Participant Contributions .....	34
9.06	Charging Distributions .....	34
9.07	Rollovers .....	34
9.08	Statement of Account .....	34
9.09	Contribution Limitations .....	34
9.10	Allocation of Earnings to Distributions of Excess Contributions .....	35
9.11	Multiple Uses of Alternative Limitation .....	35
9.12	Limitation on Allocation of Contributions .....	35
9.13	Qualified Separate Lines of Business .....	37
ARTICLE X GENERAL PROVISIONS .....		37
10.01	Administration of the Plan .....	37
10.02	Action by Employers .....	37
10.03	Information Required by Company .....	37
10.04	Review of Benefit Determinations .....	38
10.05	Company's Decision Final .....	38
10.06	Action by Company .....	38
10.07	Waiver of Notice .....	38
10.08	Gender and Number .....	38
10.09	Controlling Law .....	38
10.10	Employment Rights .....	39
10.11	Litigation by Participants .....	39
10.12	Interests Not Transferable .....	39
10.13	Absence of Guaranty .....	39
10.14	Evidence .....	39
10.15	Indemnification .....	39
10.16	Unclaimed Distributions .....	39
10.17	Plan Expenses .....	40

10.18	Disaster Relief .....	40
ARTICLE XI AMENDMENT AND TERMINATION .....		40
11.01	Amendment .....	40
11.02	Termination .....	40
11.03	Vesting and Distribution on Termination.....	41
11.04	Notice of Amendment or Termination .....	41
11.05	Plan Merger, Consolidation, etc. ....	41
ARTICLE XII SPECIAL RULES FOR TOP-HEAVY PLANS .....		41
12.01	Purpose and Effect.....	41
12.02	Top-Heavy Plan.....	41
12.03	Key Employee.....	42
12.04	Minimum Vesting.....	42
12.05	Minimum Employer Contribution .....	42
12.06	Aggregate of Plans.....	43
12.07	No Duplication of Benefits.....	43
12.08	Adjustment of Combined Benefit Limitations .....	43
12.09	Use of Terms .....	43
12.10	Modification of Top-Heavy Rules.....	43
Supplement A - Electric Boat Corporation & General Dynamics Land Systems, Inc.....		45
Supplement B - For Certain Employees of General Dynamics Armament and Technical Products, Inc.) and the former General Dynamics Defense Systems, Inc. ....		48
Supplement C - Bath Iron Works Corporation .....		51
Supplement D - General Dynamics Advanced Information Systems, Inc.....		54
Supplement E - For UAW Employees of GDLS Muskegon Operations.....		57
Supplement F - For UAW Employees of GDLS .....		59
Supplement G - National Steel and Shipbuilding Company .....		62
Supplement H - General Dynamics Ordnance and Tactical Systems, Inc.....		65

**ARTICLE I**  
**INTRODUCTION & PLAN HISTORY**

1.01 Introduction. The General Dynamics Corporation Hourly Employees' Savings and Stock Investment Plan (As Amended and Restated Effective as of January 1, 2006) (the "Plan") is maintained by General Dynamics Corporation (the "Company"). The purposes of the Plan are to encourage thrift on the part of eligible employees by furnishing them with an incentive to save for the future and to give them an opportunity to become more interested in the affairs of the Company through investing in the Plan's Company Stock fund. The Plan is intended to be a profit sharing plan with a Code Section 401(k) feature and a Code Section 401(m) feature, except that, effective June 1, 2006, a portion of the Plan's Company Stock fund is designated as a stock bonus plan and an employee stock ownership plan ("ESOP"), as defined in Code Section 4975(e)(7). In the event that any provision of the Plan relating to the ESOP conflicts with any applicable ESOP requirements set forth in the Code or any regulation thereunder, the Plan shall be construed and administered to conform to such requirements.

1.02 History & Effective Date. The Plan previously was amended and restated effective as of April 1, 1997, and thereafter was again amended and restated effective as of January 1, 2001. Such 2001 restatement, and as subsequently amended from time to time, (the "2001 Restatement") is in compliance with the General Agreement on Tariffs and Trade, the Uniform Services Employment and Reemployment Rights Act, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Restructuring and Reform Act of 1998, and the Community Renewal Tax Relief Act of 2000, as demonstrated by its favorable determination letter issued by the Internal Revenue Service on August 19, 2003. The 2001 Restatement was intended to be in good faith compliance with the requirements of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") and is to be construed in accordance with EGTRRA and guidance issued thereunder. The Plan was subsequently restated as of January 1, 2005 and the foregoing statutory requirements that were implemented in the 2001 Restatement were carried forward in the Plan, as set forth therein.

The effective date of the amendment and restatement of this Plan is January 1, 2006, except as otherwise provided herein, and all prior statutory requirements are carried forward in the Plan. The Plan, as set forth herein, replaces and supersedes all prior versions of the Plan.

1.03 Employers. Any subsidiary, affiliate or business unit of the Company may become an Employer with the Company's consent, provided such consent is indicated by amendment to the Plan. Notwithstanding anything to the contrary, employees of any subsidiary, affiliate or business unit that become employees of the Company or of its controlled group of corporations (as defined in Code Section 414(b)) by reason of any acquisition, merger or other corporate transaction shall not be permitted to participate in the Plan (a) in the absence of any express provision for their participation in any "Supplement" (as defined herein) or (b) in the event that such employees continue to actively participate in any similar plan for which the Company or any of its affiliates, subsidiaries or business units assumes or maintains sponsorship. A "subsidiary" of the Company is any legal entity of which more than 50 percent of the voting stock, units or other ownership interests thereof is owned, directly or indirectly, by the Company. An "affiliate" of the Company is any legal entity of which more than 50 percent of the voting stock, units or other ownership interests thereof is



owned, directly or indirectly, by the owner or owners of more than 50 percent of the voting stock of the Company. A "business unit" of the Company is any subsidiary or affiliate of the Company or any economic or organizational or locational division or unit thereof. The Company and any stand-alone subsidiaries, affiliates or business units of the Company which participate in the Plan are referred to below collectively as the "Employers" or "Employing Units" and sometimes individually as an "Employer" or an "Employing Unit."

1.04 Notices. Any notice or document required to be given to or filed with the Company will be properly given or filed if delivered or mailed, by registered mail, postage prepaid, to the Company, at 2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042.

1.05 Funding of Benefits. Funds contributed under the Plan are held and invested in a trust fund (the "Trust Fund"), until distribution, by a trustee appointed by the Company (the "Trustee") in accordance with the terms of a trust agreement between the Company and the Trustee which implements and forms a part of the Plan (the "Trust Agreement"). Participation and benefits under the Plan are subject to the terms and provisions of the Plan and Trust Agreement.

1.06 Exhibits and Plan Supplements. From time to time, the Company may adopt exhibits to the Plan for the purpose of setting forth specific provisions of this Plan ("Exhibits"). In addition, the Company may from time to time adopt supplements to this Plan document for the purpose of providing documentation necessary to determine benefits under the Plan for certain employee groups and Employing Units ("Supplements"). An Exhibit or Supplement may provide for additional benefits, substitute one benefit for another or provide for more restrictive benefits than those found in the main body of this Plan document. The Exhibits and Supplements may also include provisions to preserve benefits attributable to such Employees' participation in a Plan of the Employing Unit, predecessor of the Employing Unit or Affiliated Group, or to coordinate such benefits with the benefits of the Plan. Each such Exhibit or Supplement shall be attached to and form a part of the Plan. Each Exhibit and Supplement shall specify the Employing Unit to which it applies and shall supersede the provisions of the Plan document to the extent necessary to eliminate any inconsistencies between the Plan document and such Exhibits and Supplements.

## **ARTICLE II** **DEFINITIONS**

The following words and phrases shall have the respective meanings stated below unless a different meaning is plainly required by the context:

2.01 Account. "Account" means the recordkeeping account to which Contributions are credited under this Plan, as described in Article IX. An Account may be divided into various sub-accounts, as determined by the Plan Administrator. Such Accounts and subaccounts, if any, are referred to herein collectively as the "Account" or "Accounts," and sometimes individually as the "Account." To the extent necessary or desirable as determined by the Plan Administrator, each Account shall segregate income from contributions for the purpose of properly recording distributions and/or withdrawals from the Participant's Account.

2.02 Active Participant. "Active Participant" shall have the meaning set forth in Section 3.03.

2.03 Affiliated Group. "Affiliated Group" means that group of corporations and entities comprising the following: any corporation which is a Member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Company; any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Company; any organization (whether or not incorporated) which is a Participant of an affiliated service group (as defined in Code Section 414(m)) which includes the Company; and any other entity required to be aggregated with the Company pursuant to Regulations under Code Section 414(o)) (collectively referred to herein as an "Affiliated Group Member").

2.04 After-Tax Contributions. "After-Tax Contributions" means the amount, if any, withheld from the Participant's paycheck on a non-deductible basis and contributed to the Plan as permitted under a specific provision of the Plan.

2.05 Authorized Leave of Absence. "Authorized Leave of Absence" means a temporary paid or unpaid cessation from active employment with the Employer pursuant to an established nondiscriminatory policy, whether occasioned by illness, military service, maternity or paternity reasons, or any other reason. An Authorized Leave of Absence shall include that portion of leave under the Family and Medical Leave Act, as amended (the "FMLA") that is required to be credited by the FMLA. In addition, the following shall be Authorized Leaves of Absence:

- (a) Armed Forces Leave. An absence due to service in the Armed Forces of the United States shall be considered an Authorized Leave of Absence provided that the Employee returns to employment with the Employer with re-employment rights provided by federal law.
- (b) Maternity or Paternity Leave of Absence. For purposes of this Plan, a "maternity or paternity leave of absence" means an absence from work for any period by reason of the Employee's pregnancy, birth of the Employee's child, placement of a child with the Employee in connection with the adoption of such child, or any absence for the purpose of caring for such child for a period immediately following such birth or placement. In the case of such an absence, the 12-consecutive-month period beginning on the first anniversary of the first day of such absence shall not constitute a One-Year Break in Service under Section 7.02(f). The Plan Administrator shall determine, under rules of uniform application and based on information provided to the Plan Administrator by the Employee, whether the Employee's absence from work is due to "maternity or paternity leave of absence."

2.06 Beneficiary. "Beneficiary" shall have that meaning described in Section 8.06.

2.07 Company. "Company" means General Dynamics Corporation and any successor thereto.

2.08 Company Stock or Shares. "Company Stock" or "Shares" shall mean the common stock of the Company.

2.09 Continuous Service. "Continuous Service" shall have that meaning described in Section 7.02(d).

2.10 Contributions. "Contributions" means any 401(k) Contributions, After-Tax Contributions, Employer Contributions, Rollover Contributions and other contributions allocated to a Participant's Account.

2.11 Deferral Pay. A Participant's "Deferral Pay" shall be defined as provided in the applicable Supplement.

2.12 Deferral Percentage. "Deferral Percentage" shall mean a Participant's 401(k) Contribution percentage, as described in Section 4.01 of this Plan and in the applicable Supplement, if any.

2.13 Disability. "Disability" means when the Plan Administrator is notified by the Employing Unit that a Participant is determined to be disabled under the terms of his or her Employing Unit's applicable long-term disability plan or when a Participant is determined to be disabled by the Social Security Administration. An individual who elects an installment form of distribution of his or her Vested Account by reason of Disability may be required to submit to a medical examination at any time by the Plan Administrator, but not more often than once every six (6) months, to determine whether he is eligible for continuance of further installment payments. If the Plan Administrator is notified by the Employing Unit that such individual prior to attaining age sixty-five (65) is no longer disabled under the terms of his or her Employing Unit's applicable long-term disability plan or is no longer found to be disabled by the Social Security Administration and such individual returns to active status with the Company, the distribution of his or her Vested Account shall cease. In the event that such individual shall fail within thirty (30) days after receiving notice to submit to medical examinations, his or her installment distribution payments may be discontinued at the discretion of the Plan Administrator until he or she has submitted to such examination, after which his or her continued eligibility may be determined as provided above. The medical examinations provided herein shall be made by a competent physician or physicians or clinic or hospital selected by the Plan Administrator.

2.14 Effective Date. "Effective Date" shall have the meaning set forth in Section 1.02.

2.15 Eligible Employee. "Eligible Employee" means an Employee who is employed by an Employing Unit and is described in a Supplement. However, the term "Eligible Employee" shall not include:

- (a) Union Represented Employees: Employees whose employment is governed by the terms of a collective bargaining agreement between Employee representatives (within the meaning of Code Section 7701(a)(46)) and an Affiliated Group Member, under which retirement benefits were the subject

of good faith bargaining between the parties, will not be eligible to participate in this Plan unless such agreement expressly provides for coverage under this Plan;

- (b) Non-resident Aliens: Employees who are nonresident aliens (within the meaning of Code Section 7701(b)(1)(B)) and who receive no earned income (within the meaning of Code Section 911(d)(2)) from the Employer which constitutes income from sources within the United States (within the meaning of Code Section 861(a)(3)); and
- (c) Leased Employees: Employees who are leased employees within the meaning of Code Sections 414(n)(2) and 414(o)(2) and as defined in Section 3.08 of this Plan.

2.16 Employee. "Employee" means an hourly employee of an Affiliated Group Member or of an Employing Unit. Notwithstanding any provision of the Plan to the contrary, the term Employee shall not include for any purpose of the Plan any independent contractor or leased employee or any other individual who performs services for the Affiliated Group or Employing Unit and who is not treated or classified as an employee by the Affiliated Group or Employing Unit even if a court, administrative agency or other entity determines that such person is a common law employee. To the extent required by Code Section 414(n), a "leased employee," as defined in Section 3.08, shall be treated as an Employee but shall not be eligible to participate in the Plan. To the extent required by Code Section 414(o), individuals who are not otherwise Employees shall be treated as Employees but shall not be eligible to participate in this Plan.

2.17 Employer or Employing Unit. "Employer" or "Employing Unit" shall have the meaning set forth in Section 1.03.

2.18 Employer Contributions. "Employer Contributions" means the amounts contributed to the Plan by an Employer on a Participant's behalf pursuant to Section 5.01 or 5.02 of the Plan.

2.19 401(k) Contributions. "401(k) Contributions" means the amounts contributed (on a before-tax basis) to the Plan by an Employer on the Participant's behalf pursuant to the Participant's valid election. A Participant shall at all times be 100% vested in his or her 401(k) Contributions and earnings thereon.

2.20 Highly Compensated Employee. A "Highly Compensated Employee" means any present or former employee who:

- (a) was a 5% owner of an Employer during the current or immediately preceding Plan Year; or
- (b) received annual compensation from an Employer of more than \$95,000 (or such other amount as may be determined under Code Section 401(a)(17) or any successor provision thereto) during the immediately preceding Plan Year

and, if the Plan Administrator elects for such year, was in the top-paid 20% of the Employees for such year.

For purposes of the foregoing, an Employee's compensation means his or her total compensation for services rendered to the Employer as an Employee, determined in accordance with Section 415(c)(3) of the Code, but including pre-tax deferrals or payments made pursuant to Sections 125 and 402(e)(3) of the Code, and, effective as of January 1, 2001, including any such deferrals or payments made pursuant to Code Section 132(f).

2.21 Hour of Service. "Hour of Service" shall mean each hour for which an individual is paid, or entitled to payment, for any reason by the Affiliated Group or for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Affiliated Group. In any event, the determination of the meaning of "Hour of Service" shall always be made in accordance with Department of Labor Regulation § 2530.200b-2 or any successor provision thereof.

2.22 Inactive Participant. "Inactive Participant" shall have the meaning set forth in Section 3.04.

2.23 Internal Revenue Code and ERISA. "Internal Revenue Code," or "Code," and "ERISA" mean, respectively, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. Any reference to a section of the Internal Revenue Code or of ERISA shall include any comparable section or sections of any current or future legislation, regulation (including, to the extent relied upon by the Plan Administrator, any temporary or proposed regulations) or issuance that amends, interprets, supplements or supersedes that section.

2.24 Participant. "Participant" shall mean each Eligible Employee who satisfies the requirements of Sections 3.01 and 3.02 (or as otherwise indicated under Section 3.04).

2.25 Plan Administrator. "Plan Administrator" means the Company.

2.26 Plan Year. "Plan Year" means the 12 month period beginning on January 1st and ending on the following December 31st.

2.27 Qualified Military Service. "Qualified Military Service" has the meaning set forth in Section 414(u) of the Code. Notwithstanding any provision of this Plan to the contrary and effective with respect to reemployment occurring on or after December 12, 1994, contributions, benefits and service credit with respect to Qualified Military Service will be provided in accordance with Section 414(u) of the Code and loan repayments will be suspended under this Plan during such service as permitted under Section 414(u) of the Code.

2.28 Spouse. "Spouse" or "spousal", whether capitalized or not, means a legally-married person who is the opposite sex of a Participant, consistent with applicable federal law, including, but not limited to, the Defense of Marriage Act.

2.29 Valuation Date. "Valuation Date" means each day the New York Stock Exchange is open for business and Participants' Accounts are adjusted under the Plan.

2.30 Vested Account. "Vested Account" means that portion of a Participant's Account in which he is 100% vested.

### **ARTICLE III** **PARTICIPATION**

3.01 Eligibility and Commencement of Participation. Subject to the conditions and limitations of the Plan, each Eligible Employee who was a participant in the Plan immediately before the Effective Date shall continue to participate in this Plan as of the Effective Date. Beginning on the Effective Date, each other Eligible Employee may elect to participate in the Plan on his or her first day of employment as an Eligible Employee or on the Effective Date, whichever is later, by complying with enrollment procedures and authorizing a deferral of Deferral Pay at such time and in such manner as the Company may prescribe. Each Eligible Employee prior to July 1, 2006, shall become a Participant in the Plan as soon as administratively feasible after electing enrollment and complying with enrollment procedures. Effective July 1, 2006, each other Eligible Employee shall automatically become a Participant thirty days after the Plan Administrator is notified of such employee's first day of employment with the Employer by reason of the automatic deferral described in Section 4.01 of the Plan, unless an election to the contrary is made by such thirtieth day. The Plan Administrator will furnish each Participant and each beneficiary receiving benefits thereunder with a copy of a summary plan description.

3.02 Active Participation. A Participant who is eligible to make 401(k) Contributions (regardless of whether such contributions are actually made) or whose right to do so has been temporarily suspended for any reason, and who has an Account balance under the Plan, is an Active Participant and is eligible to receive contributions under Article V. Each Participant shall participate in the Plan under the terms and conditions of the Supplement applicable to that Participant's current Employing Unit.

3.03 Inactive Participation. A Participant shall be an Inactive Participant when he is no longer an Eligible Employee but maintains an Account balance. An Inactive Participant is not eligible to make a 401(k) Contributions election, nor may he receive contributions under Article V, but he may continue to make investment transfer and distribution decisions, as provided for by the Plan. Where the context permits, Inactive Participants and Active Participants are referred to collectively as "Participants."

3.04 Limited Participation by Beneficiary or Alternate Payee. If a Participant dies before his or her Account balance is reduced to zero, his or her Beneficiary shall be deemed a Participant for the limited and exclusive purposes of administering the deceased Participant's Account and distributing the same. Any "Alternate Payee" identified in a Qualified Domestic Relations Order (as defined by Section 414(p) of the Code) shall be deemed a Participant for the limited and exclusive purposes of administering the Alternate Payee's interest in the Plan and distributing the same.

3.05 Termination of Participation. An individual who has become a Participant shall remain an Active Participant or an Inactive Participant, as appropriate, until he dies or his or her Account balance is reduced to zero.



3.06 Transfer of Employment. Any change in employment status which causes a Participant who remains employed by the Affiliated Group to cease to be an Eligible Employee shall not be considered to be a termination of employment for purposes of Section 7.02(e), but such Participant shall cease to be an Active Participant and shall become an Inactive Participant. Any transfer from one Affiliated Group Member to another will not be treated as a termination of employment for purposes of Section 7.02(e) of this Plan. In the event of any transfers between Affiliated Group Members with different Supplements in the Plan or any transfer between the Plan and the General Dynamics Corporation Savings and Stock Investment Plan, such Participant, prospectively from the date of any such transfer, will cease to be governed by his or her prior Supplement and will be governed by the terms of his or her new Supplement in the Plan or in the General Dynamics Corporation Savings and Stock Investment Plan and any contribution and investment elections under the prior Supplement or under the General Dynamics Corporation Savings and Stock Investment Plan will apply to this Plan if the applicable contribution rate structures and investment options, both before and after any such transfer, are the same. The preceding sentence shall not affect or otherwise eliminate the restrictions of Section 6.03 of the Plan or of Section 6.03 of the General Dynamics Corporation Savings and Stock Investment Plan.

3.07 Leased Employees. A "leased employee" shall not be eligible to participate in the Plan. Consistent with Code Section 414(n), a "leased employee" means any person who has provided services for an Employing Unit under primary direction of or control by the Employing Unit, on a substantially full time basis for a period of at least one year, pursuant to an agreement between the Employing Unit and a leasing organization. The period during which a leased employee performs services for the Employing Unit shall be taken into account for purposes of participation or service if such leased employee becomes an Eligible Employee, unless (i) such leased employee is a participant in a money purchase pension plan maintained by the leasing organization which provides a non-integrated employer contribution rate of at least 10 percent of compensation, immediate participation for all employees and full and immediate vesting, and (ii) leased employees do not constitute more than 20 percent of the Employing Unit's non-highly compensated workforce.

#### ARTICLE IV PARTICIPANT CONTRIBUTIONS

4.01 401(k) Contributions. Subject to the limitations of this Article IV and the remainder of the Plan, a Participant may elect to make 401(k) Contributions, under the Plan for any Plan Year, beginning with the Plan Year in which he becomes a Participant, as provided for in the applicable Supplement. Subject to the limits of this Article IV and the remainder of the Plan, effective July 1, 2006, each new Participant in the Plan on and after such date shall automatically have 3% (or such other percentage determined by the Plan Administrator) of his or her Deferral Pay contributed to the Plan as soon as administratively possible after the Plan Administrator is notified of such individual's first day of employment with the Employer, unless an election to the contrary is made within thirty days. In accordance with any rules established by the Plan Administrator, such Participant may subsequently change such deferral percentage in accordance with any applicable Supplement. Each election made by a Participant under this Section 4.01 must be made at such time and in such manner as the Plan Administrator shall determine.

Subject to the limits of Article IV, no sooner than July 1, 2006 and effective as of the date determined by the Plan Administrator, the Plan Administrator may establish a contribution escalator in which case a Participant may elect to have his or her deferral rate automatically increased on an annual basis in accordance with any rules established and communicated by the Plan Administrator.

4.02 Payment of Participant Contributions. A Participant's 401(k) Contributions shall be made by the Employing Unit on behalf of the Participant, and shall reduce the Participant's compensation at the time of payment of such compensation. Amounts so deducted (or amounts by which a Participant's compensation has been so reduced) for any calendar month shall be paid to the Trustee as soon as practicable thereafter, but in any event no later than the 15th business day of the next following month, subject to permissible extensions.

4.03 After-Tax Contributions. Beginning with the Effective Date, After-Tax Contributions shall be permitted under the Plan only as set forth in the applicable Supplement.

4.04 Variation, Discontinuance and Resumption of Participant Contributions: A Participant may elect to change his or her Deferral Percentage (but not retroactively) within the limits specified in this Article IV, to discontinue contributions or to resume contributions. Each such election by a Participant shall be made at such time and in such manner as the Plan Administrator shall determine, and shall be effective only in accordance with such rules as shall be established from time to time by the Plan Administrator.

4.05 Maximum Amount of Participant 401(k) Contributions. In no event shall the amount of 401(k) Contributions (not including Rollover Contributions) by a Participant for any calendar year exceed \$15,000 (or such other amount as may be determined under Code Section 402(g) for that calendar year). If, because of the foregoing limitation, a portion of the contributions made by a Participant may not be credited to his or her Account for a calendar year, such portion (and the earnings thereon) shall be distributed to the Participant by April 15 of the following calendar year, subject to permissible extensions.

4.06 Limitation on Participant Compensation Deferral Contributions. Notwithstanding the foregoing provisions of this Article IV, in no event shall the average deferral percentage ("ADP," as defined below) for any Plan Year of the Highly Compensated Employees who are Plan Participants exceed the greater of:

- (a) the ADP of all other Participants for the current Plan Year multiplied by 1.25;  
or
- (b) the ADP respectively, of all other Participants for the current Plan Year multiplied by 2.0; provided that the ADP of such Highly Compensated Participants does not exceed that of all other Participants for the current Plan Year by more than 2 percentage points.

The ADP of a group of Participants for a Plan Year means the average of the actual deferral ratios (determined separately for each Participant in such group) of such group of Participants, where the actual deferral ratio for a Participant means the ratio of: (i) the 401(k) Contributions made by such



Participant for such Plan Year; to (ii) the Participant's compensation, determined in accordance with Section 414(s) of the Code, for such Plan Year. For purposes of the ADP calculation under this Section 4.06, a Participant means any employee who is eligible to make 401(k) Contributions under the Plan.

The 401(k) Contributions made by the Highly Compensated Employees will be reduced to the extent necessary to meet the requirements of this Section 4.06. The reductions will occur in the following manner (and in accordance with guidance set out by the IRS, including Notice 97-2):

- (c) The actual deferral ratio of the Highly Compensated Employee with the highest actual deferral ratio is reduced such that the actual deferral ratio is equal the actual deferral ratio of the Highly Compensated Employee with the next highest actual deferral ratio, provided, if applicable, that the reduction of the actual deferral ratio will be no more than is necessary to satisfy the ADP test indicated above.
- (d) The process of step (c) is repeated until the ADP test indicated above is satisfied. The total amount of excess 401(k) Contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the Highly Compensated Employee's compensation (as determined above).
- (e) The 401(k) Contributions of the Highly Compensated Employee with the highest dollar amount of 401(k) Contributions are reduced by the amount required to cause that Highly Compensated Employee's 401(k) Contributions to equal the dollar amount of the 401(k) Contributions of the Highly Compensated Employee with the next highest dollar amount of 401(k) Contributions. This amount is then distributed as provided below to the applicable Highly Compensated Employee. However, if a lesser reduction, when added to the total dollar amount already distributed under this step, would equal the total excess 401(k) Contributions determined under step (d), the lesser reduction amount is distributed.
- (f) If the total amount distributed in accordance with step (e) is less than the total excess 401(k) Contributions determined under step (d), step (e) is then repeated.

If, because of the foregoing limitations, a portion of the 401(k) Contributions (and any applicable Employer Matching Contributions thereon) made by a Highly Compensated Employee may not be credited to his or her Account for a Plan Year, such portion of the 401(k) Contributions (and the earnings thereon) shall be distributed to such Participant (or where applicable, permitted by law and approved by the Company, placed in a non-qualified supplemental benefit plan), if administratively feasible, within 2½ months after the end of that Plan Year, but in no event later than the last day of the next following Plan Year. Any such portion of Employer Matching Contributions attributable to the aforementioned distributed 401(k) Contributions shall be forfeited. In order to comply with this Section 4.06, at its discretion, the Plan Administrator may impose, from time to time, a maximum

deferral percentage that each Highly Compensated Employee may elect to defer as his or her 401(k) Contribution.

To the extent that the Plan is aggregated with other plans for purposes of Code Sections 401(a)(4) or 410(b) (other than Code Section 410(b)(2)(A)(ii)), for purposes of determining whether the Plan satisfies the above ADP test, all elective contributions made under the Plan and such other plans shall be treated as being made under a single plan. If the Plan is permissively aggregated with other plans for purposes of section 401(k), the aggregated plans must also satisfy Code Sections 401(a)(4) and 410(b) as though they were a single plan. For purposes of the above ADP test, the actual deferral ratio of a Highly Compensated Employee will be determined by treating all cash and deferred arrangements under which the Highly Compensated Employee is eligible (other than those that may not be permissively aggregated) as a single arrangement.

The provisions herein relating to the ADP test shall be administered in accordance with Code Section 401(k) and the applicable regulations and guidance thereunder.

**4.07 Rollover Contributions.** At the direction of the Plan Administrator, and in accordance with such rules as the Plan Administrator may establish from time to time, rollovers described in Section 402(c) of the Code, rollover contributions described in Section 408(d)(3) of the Code and benefits of an Employee under another plan that meets the requirements of Section 401(a) of the Code may be received by the Trustee in cash only, and will be credited to an account established in the name of the Employee (provided he is eligible to be an Active Participant under this Plan).

Additionally, after December 31, 2001, at the direction of the Plan Administrator and in accordance with such rules as the Plan Administrator may establish from time to time, the Plan will accept only in cash on behalf of an Active Participant:

- (a) a direct rollover of an eligible rollover distribution from: (i) another plan that meets the requirements of Sections 401(a) or 403(a) of the Code (excluding after-tax employee contributions, unless (if permitted by the Plan Administrator) such contributions are separately accounted for and relate to corporate acquisitions or the integration of acquired plans' assets into the Plan); or (ii) an annuity contract described in Section 403(b) of the Code (excluding after-tax employee contributions); or (iii) an eligible plan under Section 457 of the Code which is maintained by a state, political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state;
- (b) a Participant contribution of an eligible rollover distribution from: (i) another plan that meets the requirements of Sections 401(a) or 403(a) of the Code (excluding after-tax employee contributions, unless (if permitted by the Plan Administrator) such contributions are separately accounted for and relate to corporate acquisitions or the integration of acquired plans' assets into the Plan); or (ii) an annuity contract described in Section 403(b) of the Code (excluding after-tax employee contributions); or (iii) an eligible plan under

Section 457 of the Code which is maintained by a state, political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state; and

- (c) a Participant rollover contribution of the portion of a distribution from an individual retirement account or annuity described in Section 408(a) or 408(b) of the Code that is eligible to be rolled over and would otherwise be includible in gross income.

Any amounts received by the Trustee for a Participant in accordance with any of the preceding provisions shall be adjusted from time to time in accordance with Article IX of the Plan and shall be fully vested in the Employee for whom it is held under the Plan.

4.08 Vesting. A Participant shall always be 100% vested in the amounts (including earnings) attributable to any 401(k) Contributions, After-Tax Contributions, Rollover Contributions and catch-up contributions described in Section 4.09. See Article VII for vesting rules affecting other types of Contributions.

4.09 Catch-up Contributions. Effective January 1, 2002 and in accordance with, and subject to the limitations of, Section 414(v) of the Code, all Employees who are eligible to make elective deferrals under the Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make catch-up contributions. For purposes of the preceding sentence, an Employee who is projected to attain age 50 before the end of a Plan Year shall be deemed to be age 50 as of January 1 of such year. Such catch-up contributions shall not be taken into account for purposes of the provisions of the Plan implementing the requirements of Section 401(k)(3), 401(k)(11), 401(k)(12), 410(b) or 416 of the Code, as applicable, by reason of the making of such catch-up contributions. Furthermore, the election to make such catch-up contributions shall be made in accordance with such rules as determined by the Plan Administrator and, at the discretion of the Plan Administrator, may be made separately from all other contribution elections under the Plan. Unless otherwise provided by the Plan Administrator, such catch-up contributions shall not be eligible for Employer Contributions under Section 5.01 hereof.

## **ARTICLE V**

### **EMPLOYER CONTRIBUTIONS**

5.01 Employer Matching Contributions. For each month of the Plan Year, the Company shall make an "Employer Matching Contribution" to the Trustee equal to a percentage of the aggregate 401(k) Contributions made by Participants during such month pursuant to Section 4.01, but reduced by the amount of forfeitures, if any, allocable pursuant to Section 7.03. The percentage (if any) of such Employer Matching Contributions shall be determined pursuant to the applicable Supplement set forth at the end of this Plan. Employer Contributions may be made in cash or such other property as may be determined by the Company, and shall be invested in accordance with Article VI. Notwithstanding the foregoing, no Employer Contributions shall be made in Company Stock during a period commencing with the public announcement of an offer for acquisition of the common stock of the Company (ending at the expiration of the offer period), as described in Article VI.

The Company may make additional Employer Matching Contributions to the Accounts of Participants in accordance with such nondiscriminatory rules as it may establish and communicate from time to time so that certain Participants are able to benefit from Employer Matching Contributions throughout any particular Plan Year, provided that such additional contributions do not exceed the amount that such Participants would have received had their contributions been made throughout the duration of any particular Plan Year.

5.02 Employer Discretionary Contribution. For each Plan Year, the Company, in its discretion, may specify either an aggregate discretionary contribution to be made under the Plan for that year or a definite basis or formula by which such aggregate discretionary contribution can be determined within a reasonable time after the end of that Plan Year (either of which shall be known as an "Employer Discretionary Contribution"). In the event Employer Discretionary Contributions are made for any Plan Year, the Company, as specified in a Supplement, shall contribute to the Trustee amounts determined by it which shall be allocated to the Accounts of Participants eligible for such contributions in accordance with the applicable Supplement. In addition to the foregoing, the Company shall be permitted to make such contributions on any basis determined by the Company that will permit passage of any discrimination or other testing.

5.03 Limitations on Employer Contributions. The Company's total contribution for a Plan Year is conditioned on its deductibility under Section 404 of the Code in that year, shall comply with the contribution limitations set forth in Section 9.09 and the allocation limitations contained in Section 9.12, and shall not exceed an amount equal to the maximum amount deductible on account thereof by the Company for that year for purposes of federal taxes on income.

5.04 Payment of Employer Contributions. The Company's total contribution under the Plan for any Plan Year shall be paid without interest, not later than the time prescribed by law for filing the Company's federal income tax return for such year, including extensions thereof.

5.05 Verification of Employer Contributions. If for any reason the Company decides to verify the correctness of any amount or calculation relating to its contribution for any Plan Year, the certificate of an independent accountant selected by the Company as to the correctness of any such amount or calculation shall be conclusive on all persons.

5.06 No Interest in Employers. The Company shall have no right, title or interest in the Trust Fund, nor shall any part of the Trust Fund revert or be repaid to the Company, directly or indirectly, unless:

- (a) the Internal Revenue Service initially determines that the Plan, as applied to the Company, does not meet the requirements of Section 401(a) of the Code, in which event the contributions made to the Plan by the Company shall be returned to it within one year after such adverse determination;
- (b) a contribution is made by the Company by mistake of fact and such contribution is returned to the Company within one year after payment to the Trustee; or

- (c) a contribution conditioned on the deductibility thereof is disallowed as an expense for federal income tax purposes and such contribution (to the extent disallowed) is returned to the Company within one year after the disallowance of the deduction.

Contributions may be returned to the Company pursuant to paragraph (a) above only if they are conditioned upon initial qualification of the Plan, and an application for determination was made by the time prescribed by law for filing the Company's federal income tax return for the taxable year in which the Plan was adopted (or such other date as the Secretary of the Treasury may prescribe). The amount of any contribution that may be returned to the Company pursuant to paragraph (b) or (c) above must be reduced by any portion thereof previously distributed from the Trust Fund and by any losses of the Trust Fund allocable thereto, and in no event may the return of such contribution cause any Participant's Account balances to be less than the amount of such balances had the contribution not been made under the Plan.

#### ARTICLE VI INVESTMENT OF CONTRIBUTIONS

6.01 The Investment Funds. The Trust Fund as of any date shall consist of all property of every kind then held by the Trustee on behalf of the Plan. The Trust Fund shall consist of such investment funds as the Company shall determine from time to time, except that the Trust Fund shall maintain a Company Stock fund ("General Dynamics Stock Fund") that shall be invested 100% in Company Stock (except for a small portion (not to exceed 4%) of the General Dynamics Stock Fund's assets retained in cash or other liquid investments to allow such fund to process General Dynamics Stock Fund orders and pay permitted expenses). Effective as of June 1, 2006, a portion of the General Dynamics Stock Fund shall be an ESOP, as described in the following paragraph. The Trustee's purchase of Company Stock for the General Dynamics Stock Fund shall be made in accordance with this Section and Section 6.05 below. Pending investment, reinvestment or distribution as provided in the Plan, the Trustee may temporarily retain the assets of any one or more of the investment funds in cash, commercial paper, short-term obligation, or undivided interests or participation in common or collective short-term investment funds. Any investment fund may be partially or entirely invested in any common or commingled fund or in any group annuity, deposit administration or separate account contract issued by a legal reserve life insurance company which is invested generally in property of the kind specified for the investment fund. The Company, in its discretion, may direct the Trustee to establish such investment funds or to terminate any of the investment funds as it shall from time to time consider appropriate and in the best interests of the Participants. The funds established hereunder may be referred to collectively as the "investment funds" and individually as an "investment fund."

The General Dynamics Stock Fund shall consist of two sub-funds: a "Contribution Sub-fund" and an "ESOP Sub-fund". The Contribution Sub-fund shall not be an ESOP. The ESOP Sub-fund shall be an ESOP. In accordance with procedures established by the Plan Administrator, all contributions (including Company Stock contributions and all units representing such shares) to the General Dynamics Stock Fund shall first be deposited into the Contribution Sub-fund. As of dates determined by the Plan Administrator, in its sole discretion, that are prior to the Company's record date for determining to whom dividend payments are due and on each December 31 of each Plan



Year, all contributions held in the Contribution Sub-fund (except for any contributions or benefits that are integrated with Social Security) shall be transferred to the ESOP Sub-fund in order for Participants and Beneficiaries to make the election described in Section 8.14 herein. Notwithstanding anything to the contrary, all contributions made to the Contribution Sub-fund shall be deemed as "non-ESOP" for all average deferral percentage testing and all aggregate contribution percentage testing purposes under the Plan.

**6.02 Investment Fund Elections.** A Participant may elect to invest all or a portion of his or her Employee Contributions and, where permitted, the Employer Contributions made on his or her behalf in one or more of the investment funds. Investment elections must be made in whole percentages, shall be made at such time and in such manner as the Plan Administrator shall determine, and shall be subject to any rules, restrictions and limitations established by the Plan Administrator. If a Participant fails to make an election under this Section 6.02, his or her contributions and his or her share of the Employer Contributions will be invested in such investment fund as shall be designated from time to time by the Plan Administrator. Notwithstanding the foregoing, Employer Matching Contributions made to the Plan on behalf of a Participant who is eligible to receive a 100% Employer Matching Contribution shall be invested in the General Dynamics Stock Fund subject to the provisions of this Article, unless otherwise specified in any applicable Exhibit or Supplement. Notwithstanding the foregoing and notwithstanding Section 1.06 and anything to the contrary in any Supplement or Exhibit, Employer Matching Contributions made to the Plan on behalf of a Participant who is not eligible to receive a 100% Employer Matching Contribution shall be invested in accordance with such Participant's own investment fund elections. The Plan Administrator shall establish rules to permit investment fund elections consistent with Code Section 401(a)(28) and any related Treasury regulations thereunder for ESOP diversification purposes under the Plan.

Participants shall be deemed to have instructed the Plan Administrator to invest all automatic deferrals, as described in Section 4.01 of the Plan, in the Plan's fixed-income-type investment fund, unless otherwise prescribed by the terms of an applicable Supplement.

Unless otherwise provided in Section 8.14, dividends paid on investments held in the General Dynamics Stock Fund shall be reinvested in that investment fund.

**6.03 Five Year Transfer Rule.** Notwithstanding the foregoing, units in the General Dynamics Stock Fund acquired by the Account of a Participant who is eligible to receive a 100% Employer Matching Contribution may not be transferred until the first day of the fifth Plan Year after which they were acquired. This restriction shall apply to both Employer and Employee contributions for such Participants. Notwithstanding the foregoing, effective June 1, 2006, the restrictions of this Section 6.03 shall not apply to the extent required by Code Section 401(a)(28)(B) for ESOP diversification purposes under the Plan. This Section 6.03 shall not apply to any General Dynamics Stock Fund dividends that are subject to the election contemplated in Section 8.14 of the Plan.

**6.04 Investment Fund Transfers.** Subject to Section 6.03 and any administrative rules established by the Plan Administrator, Participant may elect that all or a part of his or her interest in an investment fund shall be liquidated and the proceeds thereof transferred to one or more of the other investment funds. Each such election may be made in either whole percentages or on a

dollar specific basis. Transfers may be made at such time and in such manner as the Plan Administrator shall determine, and shall be subject to any rules, restrictions and limitations established by the Plan Administrator, including, but not limited to, restrictions on and resulting penalties for excessive trading.

**6.05 Purchase of Company Stock.** As soon as practicable after receipt of contributions applicable thereto, the Trustee shall regularly purchase Company Stock from time to time in the open market in accordance with a non-discretionary purchasing program, or shall purchase authorized but unissued Company Stock from General Dynamics Corporation or Company Stock held in the treasury of General Dynamics Corporation. In the event that authorized but unissued or treasury Company Stock is purchased by the Trustee, the price per share shall be the average closing market price of the Company Stock on the New York Stock Exchange over the five most recent days prior to such purchase on which at least one sale took place. Company Stock will be held in the name of the Trustee or its nominees for the account of the Participants or Inactive Participants until distributed, and the Trustee shall in its discretion exercise or sell any rights for the purchase of any additional shares of Company Stock or other securities which General Dynamics Corporation may offer to its shareholders, except as described in Section 6.06 below.

**6.06 Voting of Company Stock.** Before each annual or special meeting of the share owners of General Dynamics Corporation, the Trustee shall furnish or cause to be furnished to each Participant for whom a Company Stock Account is maintained a copy of the proxy solicitation material for such meeting, together with a request for the Participant's confidential instructions on how the shares credited to the Participant's Company Stock Account should be voted. Upon receipt of such instructions, the Trustee shall vote such shares as instructed. Any shares held by the Trustee as to which it receives no voting instructions shall be voted by the Trustee in its sole discretion.

**6.07 Tenders or Offers of Purchase for Company Stock.**

- (a) This Section 6.07 shall apply if an offer is received by the Trustee (including a tender or exchange offer within the meaning of the Securities Exchange Act of 1934, as from time to time amended and in effect) to acquire shares of Company Stock held by the Trustee in the Trust Fund, whether or not allocated to the account of any Participant, or to acquire any rights relative to such Company Stock which by their terms are exercisable in the event of an offer for a defined percentage of Company Stock (hereafter "Offer"). The provisions of this Section 6.07, if inconsistent with any other Plan provisions, shall take precedence with respect to shares sold, exchanged or transferred pursuant to an Offer and the proceeds received by the Trustee therefrom. For purposes of this Section 6.07, the term Participant shall also include Inactive Participant.
- (b) Tenders and Withdrawal of Tenders of Company Stock.
  - (1) Company Stock Allocated to Participant Accounts. Each Participant, or a representative properly designated by that Participant or the Participant's legal guardian (to the extent consistent with the terms of

an Offer), shall be entitled to give directions to the Trustee to sell, exchange or transfer (referred to hereafter as "Tender") pursuant to an Offer any shares, or equivalent shares, allocated to that Participant's account which may be Tendered. The Trustee may only Tender shares, or equivalent shares, allocated to Participant accounts to the extent that the Trustee is timely directed to do so in writing by such Participant. To the extent not inconsistent with its fiduciary obligations under ERISA, the Trustee shall not Tender shares, or equivalent shares, for which it does not receive timely Participant directions.

- (2) Unallocated Shares of Company Stock. The Trustee shall determine whether to tender shares (or withdraw from an Offer previously Tendered shares) held in the Trust Fund which are not allocated to Participant Accounts.
  - (3) Withdrawal of Tendered Shares or equivalent shares. If under the terms of an Offer or otherwise, shares which have been Tendered may be withdrawn, the Trustee shall follow such directions as shall be timely provided by Participants regarding the withdrawal of such shares, or equivalent shares, in the same manner as it would follow directions to Tender as described in (1) above.
- (c) Shares of Company Stock Allocated to Participant Accounts Which May Be Tendered. Participants may instruct the Trustee to Tender, or not Tender, any and all shares allocated to Participants' accounts in the General Dynamics Stock Fund, subject to the terms of the Tender Offer itself. Shares which the Trustee tenders, pursuant to a Participant's directions, shall be sourced on a pro rata basis from among all shares allocated to such Participant's account in the Plan.
- (d) Solicitation and Accumulation of Participant Tender Directions. Directions shall be solicited and accumulated from Participants regarding their decision to tender or withdraw shares subject to an Offer in accordance with the following:
- (1) The Company and the Trustee shall not interfere in any manner with the decision of a Participant to tender or withdraw shares pursuant to such Offer (hereafter the "Investment Decision"). Communications to Participants by the offerer, the Company or other interested party or public communications directed generally to the owners of Company Stock which is the subject of an Offer shall not be deemed to be interference. But, no communication or action shall be permitted which would threaten or intimate any actions, which would violate Section 510 of ERISA that would or might be taken with



respect to any Participant who does not make an Investment Decision in accord with the wishes of the Trustee, the Company or Offerer.

- (2) The Trustee shall take all actions necessary to ensure that all investment decisions are made confidentially and shall retain an unrelated third party to tabulate all investment decisions for timely communication to the Trustee. Information regarding any specific Participant's Investment Decision shall be confidential and may not be released by the Trustee except as necessary to give effect to the investment decision.
  - (3) The Trustee shall use its best efforts to communicate, or cause to be communicated, to Participants the relevant provisions of the Trust Agreement regarding Participant rights to make investment decisions, the obligation of the Trustee to follow Participant directions and to tender shares.
  - (4) The Trustee shall use its best efforts to distribute, or cause to be distributed, to Participants information and communications in connection with the Offer which the Offerer or any other interested party (including the Company) has distributed to shareholders of record generally.
  - (5) The Company (or the Offerer) shall prepare and distribute (or ensure preparation and distribution of) the materials described in (iii) and (iv) above, and the Company shall perform the solicitation described in (d) above unless the Company directs the Trustee to distribute such materials or perform such solicitation.
- (e) Pro Rata Tender of Shares. If an Offer is made for less than 100% of all shares held by the Trustee, then each Participant may make an investment decision for the largest number of shares possible under the provisions of the Offer. The number of shares which will be Tendered from any Participant's account will be determined in a non-discriminatory, pro rata fashion by the Company and the Trustee consistent with the provisions of the Offer.
- (f) Operation of the General Dynamics Stock Fund During the Pendency of an Offer.
- (1) All acquisitions by the Trustee of shares under the General Dynamics Stock Fund shall be suspended immediately following the public announcement by an Offerer of a Tender Offer, and shall not resume until the Offer Period(s) expires. The Offer Period(s) is that period during which an Offer (as described in (a) above) is outstanding and may be accepted or rejected or during which time an acceptance or rejection may be withdrawn. And for purposes of suspension of

acquisition of Company Stock, the Offer Period shall include any additional period during which, in the Company's judgment, the Plan should not acquire shares in order for the Plan or Company to comply with federal law or regulations governing such Offers with respect to acquisitions of shares by affiliates of the Company.

- (2) All Participant and Employer Contributions, loan repayments, proceeds from investment fund transfers, repayments of prior distributions or reinstated Employer Contributions thereon, dividends and other distributions and any other amounts credited to the General Dynamics Stock Fund prior to receipt of an Offer and which had not been invested in shares prior to receipt of the Offer as well as any such amounts received during the Offer Period shall be:
  - (i) Held in the General Dynamics Stock Fund and invested in temporary investments as described in Section 6.01, and
  - (ii) Allocated to Participant accounts in accordance with Participant contributions or, with respect to dividends or other investment returns, in proportion to the number of shares credited to each Participant's accounts prior to the receipt of the Offer or as is otherwise appropriate.
- (3) After the Offer Period expires, the amounts described in (2) above shall be invested in Company Stock as would ordinarily occur under this Article VI.
- (4) If a Participant's shares are being cashed out, or are to be cashed out, pursuant to a loan or investment fund transfer requested pursuant to this Article VI prior to or during the Offer Period, then such shares shall not be available for Tender.
- (g) Multiple Tender Offers. If while an Offer is outstanding, the Trustee received another Offer with respect to shares held in the Trust Fund, the Trustee shall use its best efforts to obtain directions from Participants (i) with respect to shares previously tendered under the first Offer whether to withdraw such shares from tender, if possible, and if withdrawn whether to Tender such shares pursuant to the second Offer and (ii) with respect to shares not tendered under the first Offer whether to Tender such shares under the second Offer. The Trustee shall follow all directions received in a timely manner from Participants in the manner described in this Article VI.
- (h) Disposition of Proceeds Received from Tender of Company Stock.
  - (1) Notwithstanding anything to the contrary in this Plan, any proceeds received by the Trustee as the result of Tender of Company Stock

pursuant to any Offer shall be deposited in a fund of the Company's choosing and made available for reallocation to Participants based on their participation in the Tender Offer.

6.08 Additional Restrictions. Without limiting the effect of Section 6.03, additional restrictions may be imposed on the Accounts of certain Participants with General Dynamics Stock Fund investments to comply with any securities laws or Company policies.

6.09 Special Fiduciary Provisions Concerning Company Stock. The Trustee shall adopt procedures designed to safeguard the confidentiality of information relating to the purchase, holding, and sale of such securities, and the exercise of voting, tender and similar rights with respect to such securities by Participants (and Beneficiaries), except to the extent necessary to comply with Federal laws or state laws not preempted by ERISA. The Plan Administrator shall ensure that the foregoing procedures are sufficient to safeguard the confidentiality of such information and such procedures are being followed.

## **ARTICLE VII**

### **VESTING AND FORFEITURES**

7.01 General. Each Participant and Inactive Participant shall have a continuing interest under this Plan until his or her Account is distributed or forfeited. An individual Account will be valued in accordance with this Article VII.

7.02 Vested Account. A Participant or Inactive Participant shall have a Vested Account balance in accordance with the following provisions:

- (a) Vested as of the Effective Date. Participants and Inactive Participants who are vested in any portion of their Account balance as of the Effective Date of the Plan shall continue to be vested in those balances.
- (b) Immediate Vesting. A Participant shall be 100% vested in his or her 401(k) Contributions, After-Tax Contributions, Rollover Contributions, and catch-up contributions as described in Section 4.09, and in dividends from investments in the General Dynamics Stock Fund to which the election contemplated in Section 8.14 herein applies. All earnings allocated on all of the foregoing shall also be 100% vested.
- (c) Vesting of Employer Contributions. Participants and Inactive Participants shall become fully vested in all Employer Contributions and earnings thereon credited to their Accounts upon the earliest to occur of the following:
  - (1) Satisfaction by the Participant or Inactive Participant of the Continuous Service requirements set forth in the Supplement applicable to that Participant or Inactive Participant;
  - (2) Termination of a Participant's or Inactive Participant's employment from the Affiliated Employers by reason of the Participant's or

Inactive Participant's death, Disability, or layoff (in accordance with Section 7.02(e)) or discharge without fault (as part of a reduction-in-force program as defined by uniform, non-discriminatory guidelines established by the Company); or

- (3) Termination of the employment of a Participant or Inactive Participant by reason of retirement as described in the applicable provisions of Section 8.01(a).
- (d) Continuous Service. Subject to any administrative rules on Continuous Service established from time to time by the Plan Administrator, an individual's Continuous Service is the sum of the following:
  - (1) That period of employment with the Affiliated Group commencing on the later of the Effective Date or the individual's first Hour of Service and ending on the individual's Termination Date;
  - (2) For an individual who shall be in the employment of the Affiliated Group on the Effective Date, that period of Continuous Service prior to the Effective Date accrued under the terms of the Plan as it existed prior to such date; and
  - (3) In the event an Employee who was not fully vested under Section 7.02(c) incurs a Termination Date, and is subsequently reemployed, his or her Continuous Service recognized in his or her previous period of employment will be recognized in his or her subsequent period of employment after he completes one Year of Continuous Service following his or her reemployment.
- (e) Termination Date. Subject to Section 3.07, an Employee's "Termination Date" shall mean that last date on which he performed or was deemed to have performed an Hour of Service for the Affiliated Group Member, as reported by the Affiliated Group Member.
- (f) One-Year Break-in-Service. A "One-Year Break-in-Service" shall mean any Plan Year within which the Employee fails to complete one Hour of Service.

**7.03 Forfeitures.**

- (a) If a Participant or Inactive Participant terminates employment and fails to vest in his or her Employer Contributions under Section 7.02(c), all non-vested amounts and shares then in the Participant's or Inactive Participant's account as of his or her Termination Date shall be forfeited the earlier of:
  - (1) The distribution date of the entire vested portion of the Participant's or Inactive Participant's Account attributable to Company Contributions; or

- (2) The last day of the Plan Year in which the Participant or Inactive Participant incurs five consecutive One-Year Breaks-in-Service.

Furthermore, for purposes of Section 7.03(a)(1) above, in the case of a Participant or Inactive Participant whose vested benefit derived from Company Contributions is zero, such individual shall be deemed to have received a complete distribution of this vested portion upon his or her Termination Date.

- (b) Reinstatement of Forfeitures. An amount forfeited under Section 7.03 shall be reinstated if the Participant or Inactive Participant again becomes an Employee of the Affiliated Group. Notwithstanding the foregoing, if such an individual received a distribution of any amount upon termination, such distribution must be repaid to the Plan (valued as of the distribution date) for a reinstatement to be made. Such repayment must be made before the later of (1) five years after the Termination Date, or (2) five years after the date of re-employment. Any reinstated amount (not including repayments) described in this section shall be subject to the normal vesting provisions of Section 7.02(c). In addition, if the value of a Participant's Account was forfeited as a result of a distribution from the Plan prior to termination of employment, such value will be restored to the Participant's Account provided such Participant repays to the Plan, in cash and in a lump sum, the value of the earlier withdrawal and any loan amounts that were defaulted as part of a distribution upon a termination (less any amounts withdrawn from a rollover account) prior to any Termination Date.

In the event the individual repays the full amount distributed to him, the undistributed portion of the Participant's Account will be restored in full, unadjusted by any gains or losses. The source for such reinstatement shall be:

- (1) any Forfeitures occurring during the Plan Year, then
- (2) any Income or gain to the Plan (pursuant to Treasury Regulation Section 1.411(a)-7(d)(6)(iii)(C)); and last,
- (3) an Employer Contribution in an amount sufficient to restore Forfeited Accounts provided, however, that if an Employer non-elective contribution is made for such Plan Year, such contribution shall first be applied to restore any such Accounts and the remainder shall be allocated in accordance with the terms of the Plan.

- (c) Application of Forfeitures. All forfeitures of Employer Contributions and earnings thereon from the Accounts of any Participant or Inactive Participant shall be applied as a credit to reduce subsequent Employer Contributions or used to pay expenses of the Plan consistent with Section 10.17. All amounts so forfeited and applied shall be determined as of the accounting date

coincident with or immediately following the date on which the event resulting in such forfeiture occurs. However, in the event the Plan is terminated, any amount not so applied by the Trustee shall be credited ratably to the Accounts of Participants and Inactive Participants in proportion to the amounts of their respective Accounts attributable to Employer Contributions.

7.04 Value Upon Distribution. The amount of a Participant's or Inactive Participant's distribution shall equal the Participant's Vested Account determined on the Valuation Date coincident with or immediately after the date on which the distribution is requested by the Participant or his or her Beneficiary.

#### **ARTICLE VIII** **DISTRIBUTIONS UPON RETIREMENT, TERMINATION OR DEATH**

8.01 Right to Payment. For purposes of this Article VIII, the term "Participant" shall refer to both Participants and Inactive Participants. Upon termination of employment with the Affiliated Employers by reason of (a) through (d) below, the Participant or, in case of death, the Participant's Beneficiary, shall be eligible to receive a distribution in the time and manner described in this Article VIII. For purposes of this Article VIII, a termination of employment shall be the Termination Date on which a Participant's employment with the Affiliated Employers is terminated because of the first to occur of the following:

- (a) Retirement under a Pension Plan. If an Employee begins participation in the Plan after December 1, 1999, such Participant will be treated as retired for purposes of this Section if he terminates employment with an Employing Unit after he has attained the age of 55. In such event, the Participant's Vested Account balance may be distributed pursuant to any of the methods provided under Sections 8.02 and 8.05 below, or as otherwise provided in an applicable Supplement.

If an Employee is a Participant in the Plan on or before December 1, 1999, such Participant will be treated as retired for purposes of this Section if he terminates employment with an Employing Unit at the earlier of age 55 or the date the Participant satisfies the conditions for normal or early retirement under a defined benefit pension plan, maintained by or for an Employing Unit, in which the Participant participates, or if such Participant does not participate in such a defined benefit pension plan, the date he would otherwise satisfy the conditions for normal or early retirement under the applicable defined benefit pension plan. In such event, the Participant's Vested Account balance may be distributed pursuant to any of the methods provided under Sections 8.02 and 8.05 below, or as otherwise provided in an applicable Supplement.

- (b) Death. The date of the Participant's death prior to the commencement of distribution of his or her Vested Account from the Plan. In such event, the Participant's Vested Account balance may be distributed pursuant to either of



the methods provided under Sections 8.02 and 8.05 below, or as otherwise provided in an applicable Supplement.

- (c) Disability. The date the Participant terminates from the employ of the Affiliated Group at any age by reason of a Disability. In such event, the Participant's Vested Account balance may be distributed pursuant to any of the methods provided under Sections 8.02 and 8.05 below, or as otherwise provided in an applicable Supplement.
- (d) Other Terminations. The date the Participant terminates employment for any reason, except as otherwise provided for in this Section 8.01, from the Affiliated Group pursuant to 7.02(e). In such event, the Participant's Vested Account balance may be distributed pursuant to the method provided under Sections 8.02 or 8.05 below. Notwithstanding anything to the contrary and effective after December 31, 2001, distributions of a Participant's Vested Account and earnings thereon shall be permitted on account of severances from employment regardless of when the severance of employment occurred or occurs.

8.02 Form of Payment. The normal form of benefit under the Plan is a lump sum. Subject to the conditions set forth in this Article VIII, a Participant, or in the case of his or her death, his or her spousal Beneficiary, may elect to receive his or her Vested Account balance in the forms specified below, as applicable pursuant to Section 8.01, or as otherwise provided in an applicable Supplement. Non-spousal Beneficiaries will only be permitted to receive benefits under the Plan as a lump sum.

- (a) Lump Sum. By payment in a single lump sum, valued as of the Valuation Date coincident with or after the date on which payment is requested.
- (b) Partial Distributions. By payment of partial lump sums, valued as of the Valuation Date coincident with or after the date on which such payment is requested. The value of and balances in the Vested Account will be reduced by the amount of any partial lump sums in accordance with any rules established by the Plan Administrator.
- (c) Installments. By payment in a series of annual or monthly installments over a period not to exceed the life expectancy of the Participant (or the designated Beneficiary) or the joint life expectancy of the Participant and his or her designated Beneficiary, provided that the designated Beneficiary for the joint life expectancy purposes of this Section 8.02(c) must be the Participant's spouse. The joint life expectancy option described in this Section 8.02(c) shall not be available if a Participant's designated Beneficiary is a person other than the Participant's spouse. The life expectancy of a Participant or his or her spouse shall be determined by use of the expected return multiples contained in the regulations under Section 72 of the Code. If a Participant dies while any installment remains unpaid, his or her remaining Vested

Account balance shall be paid to his or her spousal Beneficiary in the form elected by such Beneficiary. Non-spousal Beneficiaries will receive any remaining unpaid installments in a lump sum. If the spousal Beneficiary elects to continue the installments, the remaining portion must be distributed over a period not exceeding the applicable period described in this Section 8.02 over which payments were being made to the Participant. In addition to the distribution options set forth herein, a Participant may elect to receive his or her Vested Account Balance in the additional form of fixed-amount installments (\$500 minimum with amount changes permitted annually).

Effective January 1, 2002, a Participant who elected any type of installment payments under the Plan may irrevocably cancel such installment payments at any time by notifying the Plan Administrator and substituting a fixed-amount installment payment (\$500 minimum with amount changes permitted annually) therefore. Such a Participant may subsequently elect a lump-sum distribution of his or her Vested Account balance at any time by notifying the Plan Administrator.

As clarification of past administration of the Plan and in accordance with rules established by the Plan Administrator, all installment payments under the Plan will be suspended upon a Participant's reemployment with an Employer and subsequent active participation in the Plan.

**8.03 Distributions Made in Cash or Shares.** All lump sum or total distributions requested by a former Employee or the designated Beneficiary of a deceased Participant shall be made in cash (or if the Participant so elects in full shares of Company Stock to the extent held in his or her Account without regard to the limitations of Section 6.03). In addition, fractional shares of Company Stock shall be paid in cash and valued as of the date the distribution request is processed, but in any event after the Participant terminates employment with the Affiliated Group Member pursuant to Sections 8.01 (a), (b), (c) and (d) above, or requests a withdrawal or payment of his or her deferred Account balance pursuant to this Article 8. Notwithstanding anything to the contrary, all distributions made pursuant to Code Section 411(a)(11) shall be paid in cash.

**8.04 Commencement of Payment.** Except as provided below in this Section 8.04, payment of a Participant's Vested Account balance shall be made, transferred, or installment payments will commence as soon as practicable after the appropriate date of termination of employment under Section 8.01 above, in accordance with such practices as the Plan Administrator may in its judgment implement. If a Participant's Vested Account balance at the time of distribution exceeds the applicable limit determined under Code Section 411(a)(11) (e.g., \$5,000 or such other amount as may be subsequently specified in the Code), distributions may not be made to the Participant before his or her "required commencement date" (defined below) without his or her consent. Effective March 28, 2005, in accordance with Code Section 401(a)(31)(B), 29 C.F.R. § 2550.404a-2, and any other applicable law, if a Participant's Vested Account Balance at the time of distribution is less than or equal to \$5000, distributions may be made on behalf of a Participant before his or her "required commencement date" (defined below) without his or her consent as soon as administratively practicable. Distribution of benefits shall be made (or installment payments shall



commence) no later than April 1 of the calendar year next following the year in which the Participant attains age 70½. Notwithstanding the foregoing, beginning with Participants who attain age 70½ in or after a calendar year beginning on or after January 1, 1997, distribution of benefits must be made or commence no later than April 1 of calendar year following the later of the calendar year in which the Participant attains age 70½ or the calendar year in which he retires (his or her "required commencement date"); provided, however, that a Participant who already commenced receiving distributions prior to January 1, 1997, but who had not yet retired may elect during 1997 to stop distributions until his or her required commencement date. The required commencement date of a Participant who is a 5 percent owner (as defined in Section 416 of the Code) shall remain April 1 of the calendar year next following the calendar year in which he attains age 70½. All required minimum distributions shall be paid and calculated in accordance with any applicable regulations promulgated under Code Section 401(a)(9), except that:

- (a) if a Participant dies after his or her required commencement date, the remaining portion of his or her benefits must be distributed over a period not exceeding the period over which payments were being made to the Participant; or
- (b) if a Participant dies before his or her required commencement date, his or her benefits must be distributed over a period not exceeding the greatest of: (i) December 31 of the fifth calendar year following the death of the Participant; (ii) in the case of payments to a designated Beneficiary other than the Participant's spouse, the life expectancy of such Beneficiary, provided payments begin by December 31 of the calendar year following the Participant's death; or (iii) in the case of payments to the Participant's spouse, the life expectancy of such spouse, provided payments begin by December 31 of the year the Participant would have attained age 70½.

With respect to distributions under the Plan made for calendar years beginning on or after January 1, 2002, the Plan will apply the minimum distribution requirements of Section 401(a)(9) of the Code in accordance with the regulations under Section 401(a)(9) that were proposed on January 17, 2001, notwithstanding any provision of the Plan to the contrary. This paragraph of Section 8.04 shall continue in effect until the end of the last calendar year beginning before the effective date of final regulations under Code Section 401(a)(9) or such other date as may be specified in guidance published by the Internal Revenue Service.

With respect to distributions under the Plan made with respect to calendar years beginning on or after January 1, 2003, the Plan will apply the minimum distribution requirements of Section 401(a)(9) of the Code in accordance with the final regulations under Code Section 401(a)(9) that are described in Revenue Procedure 2002-29.

**8.05 Deferral of Payment.** A Participant or spousal Beneficiary who is eligible to receive payment of his or her Vested Account pursuant to Section 8.01 may elect to defer such payment until his or her required commencement date (as defined in Section 8.04 above). The deferring Participant or spousal Beneficiary may elect to receive a lump-sum distribution of his or her entire Vested Account at any time after the initial deferral and before his or her required

commencement date by requesting a distribution in the manner prescribed by the Plan Administrator. Notwithstanding the foregoing, the Vested Account balance of a deferring Participant who terminated employment may be distributed pursuant to any of the methods provided above or in a partial lump-sum payment and partial deferral. Effective for deferral dates prior to January 1, 1998 only, in the event that the Participant fails to elect a form of benefit, his or her Vested Account shall be distributed in lump sum form. Effective January 1, 2006, non-spousal Beneficiaries will not be eligible to defer benefits under the Plan.

**8.06 Designation of Beneficiary.** Each Participant from time to time may designate a Beneficiary to whom his or her benefits may be paid in the event of his or her death. "Beneficiary" shall mean (a) the person designated by the Participant (i) either in writing, on a form prescribed by and filed with the Plan Administrator, to receive a distribution upon the death of a Participant or (ii) in such other manner as provided by the Plan Administrator, or (b) the estate of the Participant in the event that no such designation shall have been made or the person so designated shall have died prior to or coincident with the Participant. Notwithstanding anything to the contrary contained in the Plan, the designated Beneficiary of a legally married Participant shall be the Participant's spouse. Any Beneficiary designation to the contrary shall be void unless such spouse of the Participant consents in writing to the Beneficiary designation. Such spouse's written consent shall be given on such forms as designated by the Plan Administrator. The consent shall acknowledge the effect of the consent and must be witnessed by a Plan representative or notary public. The designated Beneficiary of a Participant or an alternate payee, as defined in Section 414(p) of the Code, (unless otherwise provided in a Qualified Domestic Relations Order) shall not be entitled to designate another Beneficiary. Upon the death of the designated Beneficiary of a Participant after the designated Beneficiary has become entitled to receive distribution of the Participant's account, payment shall be made to the designated Beneficiary's estate pursuant to Section 8.07. Any disclaimer with respect to benefits provided herein and any power of attorney must be made consistent with any applicable provision of the Code and state law and any other rules established by the Company for the orderly administration of the Plan.

**8.07 Special Rules for Distribution In Case of Death.** If a Participant dies before receiving his or her entire Vested Account balance, benefits shall be paid to his or her designated Beneficiary. If a deceased Participant failed to designate a Beneficiary before his or her death, or if all of the designated Beneficiaries die before the Participant, the Participant's benefits shall be distributed in accordance with the provisions set forth in Section 8.06 above. In addition, the following rules shall apply with respect to benefits distributed after the Participant's death:

- (a) For Participant deaths prior to January 1, 2006, in the event that the Participant's benefits are distributed to his or her estate pursuant to Section 8.06, the maximum period over which installment payments shall be payable shall be 5 years.
- (b) In the event that the Participant dies before receiving all or part of a distribution from his or her Vested Account but after he has properly requested such a distribution, the distribution shall be paid in accordance with his or her election (that is, paid to his or her estate or Beneficiary).

- (c) In the event that the designated Beneficiary dies after commencing receipt of distributions but before the entire Vested Account balance is distributed, the remaining balance shall be distributed to the Beneficiary's estate.
- (d) In the event that the Participant dies after terminating employment with the Affiliated Employers and after deferring receipt of his or her Vested Account balance pursuant to Section 8.05, such Vested Account balance shall be distributed in accordance with Section 8.06.
- (e) If any portion of a Participant's Vested Account is payable to a designated Beneficiary who is a minor at the time of such distribution, the distribution may be paid to the duly appointed guardian of such minor's estate or to the custodian of a Uniform Transfer to Minors Act or Uniform Gifts to Minors Act account for the benefit of such minor Beneficiary.

8.08 Missing Participants or Beneficiaries. Each Participant and each designated Beneficiary must provide his or her post office address, and any change in post office address, to the Plan Administrator, pursuant to procedures determined by his or her Employer's Human Resource Department. Any communication, statement or notice addressed to a Participant or Beneficiary at his or her last post office address filed with the Plan Administrator or the Employer shall be binding on the Participant and his or her Beneficiary for all purposes of the Plan. Neither the Employer nor the Plan Administrator is required to search for or locate a Participant or Beneficiary. If a Participant or Beneficiary is notified by the Plan Administrator that he is entitled to a payment, and the Participant or Beneficiary fails to claim his or her benefits or make his or her whereabouts known to the Plan Administrator within 5 years after a distribution becomes due, the amount thereof shall be used to reduce Employer Contributions. Should the Participant or Payee subsequently make proper claim for such amount, it shall be paid to the Trust Fund by the Employer and distributed in accordance with the terms of the Plan.

8.09 Direct Rollovers. If payment of a Participant's benefits constitutes an eligible rollover distribution under Section 402(c)(4) of the Code, then the Participant or other eligible distributee may elect to have such distribution paid directly to an eligible retirement plan described in Section 402(c)(8)(B) of the Code. Such eligible rollover distribution may be paid in cash or Company Stock, as the Participant shall elect. Each election under this Section 8.09 shall be made at such time and in such manner as the Plan Administrator shall determine, and shall be effective only in accordance with such rules as shall be established from time to time by the Plan Administrator.

Effective January 1, 1999, any before-tax contribution amount that is distributed on account of hardship shall not be an eligible rollover distribution under this Section 8.09 and the distributee may not elect to have any portion of such a distribution paid directly to an eligible retirement plan as described above.

Effective January 1, 2002, the term eligible retirement plan described above shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for

amounts transferred into such plan from this Plan and the definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code.

Effective January 1, 2002, with respect to the term eligible rollover distribution described above, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible. Moreover, the entire amount of any hardship withdrawal shall not be eligible for rollovers.

8.10 Distribution to Alternate Payees. The Plan Administrator may direct the Trustee to distribute benefits to an alternate payee, as defined in Section 414(p) of the Code, on the earliest date specified in a Qualified Domestic Relations Order, without regard to whether such distribution is made or commences prior to the Participant's earliest retirement age (as defined in Section 414(p)(4)(B) of the Code) or the earliest date that the Participant could commence receiving benefits under the Plan. Such an alternate payee will be treated for all purposes under the Plan as a non-spousal Beneficiary.

8.11 Loans to Participants. The Plan Administrator, in accordance with regulations promulgated by the Internal Revenue Service and pursuant to such rules as it may from time to time establish and maintain in addition to this Plan document, and upon application by an Active Participant supported by such evidence as the Plan Administrator requests, may direct the Trustee to make a loan from the Trust Fund to an Active Participant subject to the following:

- (a) The principal amount of any loan made to an Active Participant, when added to the outstanding balance of all other loans made to such Participant from all qualified plans maintained by the Employers, shall not exceed the lesser of:
  - (1) \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans from the Plan during the one-year period ending on the day before the date on which such loan was made, over the outstanding balance of loans from the Plan on the date on which such loan was made; or
  - (2) one-half of the Active Participant's Vested Account balances under the Plan.
- (b) Each loan must be evidenced by a note in a form approved by the Plan Administrator, shall bear interest at a reasonable rate, and shall require substantially level amortization (with payments at least quarterly) over the term of the loan.

- (c) Each loan shall specify a repayment period that shall not extend beyond five years or twenty years in the case of loans for a primary residence.

If, on a Participant's Termination Date, any loan or portion of a loan made to him under the Plan, together with the accrued interest thereon, remains unpaid, an amount equal to such loan or any part thereof, together with the accrued interest thereon, shall be charged to the Participant's Accounts after all other adjustments required under the Plan, but before any distribution pursuant to Article VIII. The foregoing shall not apply to a Participant during a period in which he is laid off, provided he elects to continue loan payments through personal check. Participants with a Disability, Participants who are receiving short-term disability benefits from their Employing Unit or Participants who are on a Company-approved leave of absence may make manual loan repayments for the duration of such disability or leave. Moreover, at the discretion of the Plan Administrator, the foregoing loan rules may be modified in accordance with the terms of any applicable corporate sale, outsourcing or other similar agreement affecting Participant's who are part of affected Employing Units and such Participants may be permitted to make manual loan repayments under such terms and conditions as the Plan Administrator determines. In all cases, if a Participant requests any form of distribution while a loan remains unpaid, such loan will be immediately foreclosed and treated as a taxable event.

In determining the adjusted net worth of the Trust Fund as of each accounting date, the Trustee shall disregard loans made to Participants under this Section 8.11 and any interest and principal payments on such loans received by the Trustee since the last preceding accounting date. For purposes of adjusting Participants' Accounts under Article VIII, the Company shall exclude from the credit balance in a Participant's accounts the unpaid amount of any loan made to him (disregarding any principal payments made since the last preceding accounting date). Interest paid by a Participant on a loan made to him under this Section 8.11 shall be credited to the accounts of the Participant after all other adjustments required under the Plan as of that date have been completed. A deferring Participant who leaves the employ of the Affiliated Employers and any Participant on an unpaid leave of absence shall not be eligible for a loan from his or her Vested Account.

Participants, whether Active Participants or Inactive Participants, may take either two general purpose loans or one general purpose loan and one principal residence loan, provided that such Participants are on the active payroll of the Company or an Employing Unit. The total number and type of loans available hereunder shall be reduced by the corresponding number and type of loans outstanding under any other plan maintained by the Company. Notwithstanding any of the foregoing, the Plan Administrator may allow additional loans with respect to any Business Unit or group of Participants employed at a business that is acquired by the Company and specifically permitted participation herein; provided that the Plan Administrator determines that such additional loans are administratively feasible and such action is taken solely to accommodate prior loans under any plans affected by such business acquisition.

**8.12 Hardship Withdrawal of Compensation Deferral Contributions.** Subject to the following provisions of this Section 8.12, a Participant may elect to withdraw in the following order, all or any portion of his or her After-Tax Contributions, if any, as well as rollover amounts, vested Employer Contributions and 401(k) Contributions (including earnings on such contributions prior to 1989), provided that the withdrawal is necessary in light of immediate and heavy financial needs of



the Participant. Such a withdrawal shall be in an amount that is no less than \$500 or 100% of the available Account balance, and in no event shall such a withdrawal exceed the amount required to meet this immediate financial need, after seeking amounts reasonably available from other resources of the Participant (including electing to receive dividends in cash as described in Section 8.14; all other distributions and non-taxable loans currently available under the Plan). Each such election shall be filed with the Plan Administrator or its agent at such time and in such manner as the Plan Administrator shall determine, and shall be effective in accordance with such rules as the Plan Administrator shall establish and publish from time to time. Consistent with Treasury Regulation Section 1.401(k)-1(d), immediate and heavy financial needs are limited to amounts necessary for:

- (a) Unreimbursed medical expenses described in Code Section 213(d) that are previously incurred by the Participant, his or her spouse or his or her dependents (as defined by the IRS) or necessary for these persons to obtain medical care described in Code Section 213(d);
- (b) Purchase (excluding mortgage payments) of a principal residence for the Participant;
- (c) Payment of tuition and related educational fees (including room and board) for the next 12 months of post-secondary education for the Participant, his or her spouse or his or her dependents (as defined by the Internal Revenue Service);
- (d) Preventing foreclosure on or eviction from the Participant's principal residence;
- (e) Funeral expenses of a family member;
- (f) an Internal Revenue Service tax levy;
- (g) Certain legal fees and costs;
- (h) Covering expenses for the repair of damage to the Participant's principal residence that would qualify for the casualty deduction under Section 165 of the Code (determined without regard to whether the loss exceeds 10% of adjusted gross income); or
- (i) Such other events or expenses that constitute an immediate and heavy financial need under Treasury Regulation Section 1.401(k)-1(d) and based on all relevant facts and circumstances.

**8.13 In-Service Withdrawals.** A Participant who is employed by the Affiliated Group may elect to withdraw a specified portion of his or her Vested Account balance at age 59½ or as described below (in amounts of not less than \$500 or 100 percent of the available amount, whichever is less), subject to the restrictions contained in this Section 8.13 and such other restrictions as the Plan Administrator may from time to time impose. Each election by a Participant under this Section 8.13 must be filed with the Plan Administrator or its agent at such time and in

such manner as the Plan Administrator shall determine, and shall be effective in accordance with such rules as the Plan Administrator shall establish. The Vested Account portion from which an in-service withdrawal may be made consists of all vested amounts credited to a Participant's Account (including rollover balances credited pursuant to Section 4.08) and vested transfers from other plans, except for:

- (a) 401(k) Contributions and earnings thereon (before the Participant's attainment of age 59½);
- (b) vested Employer Discretionary Contributions or Employer Matching Contributions and earnings thereon credited to a Participant's Account, provided that such contributions (and related earnings) shall be available for in-service withdrawal if (i) such contributions (and related earnings) have remained in the Plan for the 24 months preceding the date the withdrawal is requested and made or (ii) the Participant has participated in the Plan for at least five years on the date the withdrawal is requested and made;
- (c) with respect to Participants eligible for 100 percent Employer Matching Contributions, any and all shares or amounts credited (after March 31, 1991) to a Participant's account in the General Dynamics Stock Fund (not including rollover account balances) to the extent those shares were acquired during Plan Years subsequent to the fifth Plan Year preceding the Plan Year in which the withdrawal is requested and made.

All amounts and/or shares withdrawn shall be drawn from a Participant's Account on a pro rata basis from all investment funds, in the following order: After-Tax Contributions, rollover amounts, Employer Contributions and 401(k) Contributions (as available pursuant to (a), (b) and (c) above). Notwithstanding the foregoing, there shall be no restriction on the number of withdrawals with respect to any Vested Account balances under this section and the restriction of Section 6.03 shall not apply to age 59½ withdrawals.

8.14 ESOP Dividend Distribution Election. In accordance with such rules as the Plan Administrator establishes and consistent with Code Section 404(k) and effective June 1, 2006, all Participants may elect at any time either to reinvest any regularly scheduled quarterly (or annual) cash dividends attributable to their investment in the ESOP Sub-fund portion of the General Dynamics Stock Fund or to receive the value of such dividends in cash. If no such election is made, such dividends will be reinvested in the General Dynamics Stock Fund. Such elections on file with the Plan Administrator at the end of the day prior to the ex-dividend date with respect to the next immediate dividend posting the following day shall be treated as irrevocable. The treatment elected under such irrevocable election shall be processed as soon as administratively practicable. The foregoing only applies to regularly scheduled quarterly (or annual) cash dividends actually paid to the Plan. Any other dividends, including special dividends, or dividends paid in the form of shares of the Company or other property, are not eligible for the foregoing dividend distribution election and will be reinvested in the General Dynamics Stock Fund or as otherwise provided under the Plan.



**ARTICLE IX**  
**PLAN ACCOUNTING**

9.01 Separate Accounts. The Plan Administrator shall maintain the following Accounts in the name of each Participant or Inactive Participant:

- (a) a "Before-Tax Account," which shall reflect his or her 401(k) Contributions, if any, under the Plan, and the income, losses, appreciation and depreciation attributable thereto;
- (b) an "After-Tax Account" which shall reflect his or her voluntary After-Tax Contributions, if any, under the Plan, and the income, losses, appreciation and depreciation attributable thereto;
- (c) a "Company Match Account," which shall reflect his or her share of Employer Contributions under the Plan, and the income, losses, appreciation and depreciation attributable thereto;
- (d) a "Rollover Account," which shall reflect amounts rolled over to the Plan from another qualified plan, if any, and the income, losses, appreciation and depreciation attributable thereto.

The Plan Administrator also may maintain such other Accounts in the names of Participants or otherwise as it considers advisable. Unless the context indicates otherwise, references to a Participant's "Account" or "Accounts" means all accounts maintained in his or her name under the Plan.

9.02 Daily Accounting Dates. Participants' Accounts shall be adjusted as of the end of each business day. A "business day" shall mean any day on which the New York Stock Exchange is open for business. Accordingly, an "accounting date" means each business day as defined herein as of which Participants' Accounts are adjusted under the Plan.

9.03 Adjustment of Participants' Accounts. Participants' Accounts shall be maintained on the basis of dollar values or units that may be converted to dollar values. Pursuant to the accounting procedures of the Plan Administrator, Participants' Accounts will be adjusted on each accounting date to reflect the adjusted net worth (as described below) of the investment funds in which such accounts have an interest and to reflect any contributions and distributions since the previous accounting date (including adjustments for Plan expenses that are paid out of Plan assets). The "adjusted net worth" of an investment fund as of any accounting date means the then-net worth of that investment fund as determined by the Trustee in accordance with the provisions of the Trust Agreement. Accounts held under an annuity contract shall be adjusted in accordance with the annuity contract.

9.04 Allocation of Employer Contributions. As of each regular accounting date on which a Participant's 401(k) Contribution is credited to his or her Accounts, Employer Contributions shall be allocated and credited to the accounts of the same Participants in accordance with Sections 5.01, 5.02 and 6.02. Regular quarterly or annual dividends declared by the Company and received

on Company Stock held by the Trustee shall be used to purchase shares or units of Company Stock, and the Participant's or Inactive Participant's Accounts shall be credited with a proportionate number of such shares determined on the basis of the number of shares or units in each Participant's or Inactive Participant's Account.

9.05 Crediting of Participant Contributions. Subject to Article IV, each Participant's 401(k) Contributions or After-Tax Contributions shall be credited to his or her Before-Tax Account and After-Tax Account, as applicable, as soon as practicable, but in any event no later than the 15th business day of the next following month, subject to permissible extensions.

9.06 Charging Distributions. All payments or distributions made to a Participant or his or her Beneficiary will be charged to the appropriate Accounts of such Participant.

9.07 Rollovers. At the direction of the Plan Administrator, and in accordance with such rules as the Plan Administrator may establish from time to time, rollovers described in Section 402(c) of the Code, rollover contributions described in Section 408(d)(3) of the Code and benefits of a Participant under another plan that meets the requirements of Section 401(a) of the Code may be received by the Trustee, and will be credited to an account established in the name of the Participant. Any amount received by the Trustee for a Participant in accordance with the preceding sentence shall be adjusted from time to time in accordance with the Section 9.03 above and shall be fully vested in the Participant for whom it is held under the Plan.

9.08 Statement of Account. As soon as practicable after the end of each calendar quarter, or at such other times as the Plan Administrator may decide, each Participant will be furnished with a statement reflecting the condition of his or her Accounts in the Trust Fund as of that date. No Participant, except one authorized by the Plan Administrator, shall have the right to inspect the records reflecting the accounts of any other Participant.

9.09 Contribution Limitations. For each Plan Year, the annual addition (as defined below) to a Participant's Accounts under the Plan shall not exceed the lesser of \$44,000, as adjusted for increases in the cost-of-living under Section 415(d) of the Code (or, if greater, 1/4 of the dollar limitation in effect under Section 415(b)(1)(A) of the Code for the calendar year which begins with or within that Plan Year) or 100 percent of the Participant's Section 415 compensation (as defined below) during that Plan Year. The term "annual addition" for any Plan Year means the sum of the Employer Contributions, Participant Contributions and forfeitures credited to a Participant's Accounts for that year. Any Participant contributions which cannot be allocated to a Participant because of the foregoing limitations (and any gains attributable thereto) shall be returned to him. Any Employer Contributions which cannot be allocated to a Participant because of the foregoing limitations shall be applied to reduce Employer Contributions in succeeding Plan Years, in order of time. A Participant's "Section 415 compensation" means his or her total cash compensation for services rendered to the Employers as an Employee, determined in accordance with Section 415(c)(3) of the Code, but including pre-tax deferrals or payments made pursuant to Sections 125, 132(f) and 402(e)(3) of the Code and excluding any contribution for medical benefits after separation from service (within the meaning of Code Sections 401(h) or 419A(f)(2)) which is otherwise treated as an annual addition.

9.10 Allocation of Earnings to Distributions of Excess Contributions. Effective January 1, 2004, the earnings allocable to distributions of Participants' 401(k) Contributions exceeding the limits of Sections 4.05 (Code Section 402(g) limit) and 4.06 (ADP limit) and Participants' After-Tax and Matching Contributions exceeding the limits of Section 9.12 (ACP limit) shall be determined as follows:

- (a) for Sections 4.05 and 4.06 earnings shall be determined by multiplying the income or loss attributable to the Participant's 401(k) Contributions for the Plan Year by a fraction, the numerator of which is the excess contributions to be distributed to the Participant for the Plan Year and the denominator of which is the sum of: (i) the Participant's 401(k) account balance on the first day of the Plan Year, and (ii) the Participant's 401(k) Contributions for such Plan Year.
- (b) for Section 9.12 earnings shall be determined by multiplying the income or loss attributable to the Participant's After-Tax and Matching Contributions for the Plan Year by a fraction, the numerator of which is the excess contributions to be distributed to the Participant for the Plan Year and the denominator of which is the sum of: (i) the total of the Participant's After-Tax and Matching account balance on the first day of the Plan Year, and (ii) the total of the Participant's After-Tax and Matching Contributions for such Plan Year.

9.11 Multiple Uses of Alternative Limitation. In accordance with Treasury Regulation 1.401(m)-2(c), multiple use of the alternative limitation which occurs as a result of testing under the limitations described in Section 4.06 will be corrected in the manner described in Treasury Regulation 1.401(m)-1(e). The term "alternative limitation" as used above means the alternative methods of compliance with Sections 401(k) and 401(m) of the Code contained in 401(k)(3)(A)(ii)(II) and 401(m)(2)(A)(ii) thereof, respectively.

The multiple use test described in this Section 9.11 shall not apply for Plan Years beginning after December 31, 2001.

9.12 Limitation on Allocation of Contributions. Notwithstanding the foregoing provisions of this Article IX, in no event shall the actual contribution percentage ("ACP", as defined below) of the Highly Compensated Employees (as defined in Section 2.20) who are Plan Participants for any Plan Year exceed the greater of:

- (a) the contribution percentage of all other Participants for the current Plan Year multiplied by 1.25; or
- (b) the contribution percentage of all other Participants for the current Plan Year multiplied by 2.0; provided that the contribution percentage of the Highly Compensated Employees does not exceed that of all other Participants for the current Plan Year by more than 2 percentage points.

The ACP of a group of Participants for a Plan Year means the average of the actual contribution ratios (determined separately for each Participant in such group) of such group of Participants, where the actual contribution ratio for a Participant means the ratio of: (i) the sum of Employer Matching Contributions and Participant After-Tax Contributions (and including any 401(k) Contributions that are taken into account pursuant to Treasury Regulation Section 1.401(m)-2(a)(6)(ii)) allocated to such Participant for such Plan Year; to (ii) the Participant's compensation, determined in accordance with Section 414(s) of the Code, for such Plan Year. For purposes of this Section 9.12, a Participant means any Employee who is eligible to receive Employer Matching Contributions or to make Participant After-Tax Contributions under the Plan.

The Employer Matching Contributions allocated to and Participant After-Tax Contributions made by the Highly Compensated Employees will be reduced to the extent necessary to meet the requirements of this Section 9.12. For Purposes of this Section 9.12, such Employer Matching Contributions and Participant After-Tax Contributions are collectively referred to as "Aggregate Contributions". The reductions will occur in the following manner (and in accordance with guidance set out by the IRS, including Notice 97-2):

- (c) The actual contribution ratio of the Highly Compensated Employee with the highest actual contribution ratio is reduced such that the actual contribution ratio is equal the actual contribution ratio of the Highly Compensated Employee with the next highest actual contribution ratio, provided, if applicable, that the reduction of the actual contribution ratio will be no more than is necessary to satisfy the ACP test indicated above.
- (d) The process of step (c) is repeated until the ACP test indicated above is satisfied. The total amount of excess Aggregate Contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the Highly Compensated Employee's compensation (as determined above).
- (e) The Aggregate Contributions of the Highly Compensated Employee with the highest dollar amount of Aggregate Contributions are reduced by the amount required to cause that Highly Compensated Employee's Aggregate Contributions to equal the dollar amount of the Aggregate Contributions of the Highly Compensated Employee with the next highest dollar amount of Aggregate Contributions. This amount is then distributed as provided below to the applicable Highly Compensated Employee. However, if a lesser reduction, when added to the total dollar amount already distributed under this step, would equal the total excess Aggregate Contributions determined under step (d), the lesser reduction amount is distributed.
- (f) If the total amount distributed in accordance with step (e) is less than the total excess Aggregate Contributions determined under step (d), step (e) is then repeated.

If, because of the foregoing limitations, a portion of the Employer Matching Contributions allocated to, or the After-Tax Contributions (and any applicable Employer Matching Contributions thereon)

made by a Highly Compensated Employee may not be credited to his or her Account for a Plan Year, such portions of the After-Tax Contributions and vested Employer Matching Contributions (and the earnings thereon) shall be distributed to such Employee within 2½ months after the end of that Plan Year, but in no event later than the last day of the next following Plan Year. Any such portions of the aforementioned Employer Matching Contributions that are not vested shall be forfeited.

For purposes of the above ACP test, the actual contribution ratio of a Highly Compensated Employee will be determined by treating all plans subject to Code Section 401(m) under which the Highly Compensated Employee is eligible (other than those that may not be permissively aggregated) as a single plan.

The provisions herein relating to the ACP test shall be administered in accordance with Code Section 401(m) and the applicable regulations and guidance thereunder.

9.13 Qualified Separate Lines of Business. In the event that Plan testing described in Sections 4.06 and 9.12 herein occurs on the basis of individual "qualified separate lines of business" (as defined in the Code), Participants who transfer from one separate line of business to another separate line of business will be assigned to the "qualified separate line of business" in which they are employed on the last day of the applicable testing year for purposes of the testing described in Sections 4.06 and 9.12 herein. Furthermore, such Participants' applicable total annual pay and total annual contributions will be included in the qualified separate line of business in which they are employed on the last day of the applicable testing year.

## ARTICLE X GENERAL PROVISIONS

10.01 Administration of the Plan. The Company is the named fiduciary and administrator of the Plan. The Plan is administered by the Company as set forth in this Article X. The Company has the discretionary authority to construe and interpret the provisions of the Plan and make factual determinations thereunder, including the power to determine the rights or eligibility of Employees or Participants and any other persons, and the amounts of their benefits under the Plan, and to remedy ambiguities, inconsistencies or omissions; and such determinations shall be binding on all parties. The Company from time to time may adopt such rules and regulations as may be necessary or desirable for the proper and efficient administration of the Plan and as are consistent with the terms of the Plan. The Company also, from time to time, may appoint such individuals to act as the Company's representatives as the Company considers necessary or desirable for the efficient administration of the Plan.

10.02 Action by Employers. Any action required or permitted to be taken by an Employing Unit under the Plan shall be by resolution of its board of directors or any duly authorized officer and any delegates thereof.

10.03 Information Required by Company. Each person entitled to benefits under the Plan shall furnish the Company, as Plan Administrator, with such documents, evidence, data or information as the Company considers necessary or desirable for the purpose of administering the Plan. The records of the Company as to an Employee's or Participant's period of employment,



service, Termination Date and reason therefor, leave of absence, reemployment and compensation/Deferral Pay will be conclusive on all persons unless determined to the Company's satisfaction to be incorrect.

10.04 Review of Benefit Determinations. The Company shall establish a benefits claim procedure. If a claim for benefits is denied, the Company shall provide notice in writing to the Participant or Beneficiary, if appropriate, within 90 days after the claim is filed (plus an additional 90 days if special circumstances necessitate an extension). Such notice shall explain the reasons for the denial, the Plan provisions on which the denial is based and any additional material or information needed to perfect the claim; and shall also set forth the procedure for requesting a review of the claim. Within 75 days of receiving this notice of denial, the Participant may submit a written request for review on appeal to the Plan Administrator. The Participant or Beneficiary, if appropriate, also shall be afforded the opportunity to review pertinent documents on which the denial is based and to submit comments and address issues in writing. Within 60 days of receiving such a request for review (or within 120 days, if special circumstances necessitate an extension), the Company shall issue written notice of its decision on the appeal, which notice shall set forth the specific reasons for the decision, including references to the pertinent Plan provisions on which the decision is based. No individual shall be permitted to file any lawsuit, either in law or equity, until after such individual has exhausted and complied with the claim and appeal provisions herein.

10.05 Company's Decision Final. Subject to applicable law, any interpretation of the provisions of the Plan and any decisions on any matter made by the Company in good faith shall be binding on all persons. A misstatement or other mistake of fact shall be corrected when it becomes known and the Company shall make such adjustment on account thereof as it considers equitable and practicable. The Company or its delegate shall have full discretion to determine eligibility for benefits or to interpret the Plan, resolve any disputes arising from Plan language and construe any ambiguous or uncertain terms therein and make all other determinations necessary or advisable for the discharge of its duties under the Plan including but not limited to making findings of facts. As such, benefits will only be paid if the Company determines that a person is entitled to them. Any such determination, interpretation, resolution or construction made by the Company in good faith shall be final and binding on all persons.

10.06 Action by Company. Any action required or permitted to be taken by the Company under the Plan shall be by action of its Board of Directors or by any duly authorized officer or employee.

10.07 Waiver of Notice. Any notice required under the Plan may be waived by the person entitled to such notice.

10.08 Gender and Number. Where the context admits, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and the plural shall include the singular.

10.09 Controlling Law. Except to the extent superseded by laws of the United States, the laws of Illinois shall be controlling in all matters relating to the Plan.

10.10 Employment Rights. The Plan does not constitute a contract of employment, and participation in the Plan will not give any Employee the right to be retained in the employ of an Employer, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan.

10.11 Litigation by Participants. If a legal action begun against the Trustee, the Company or an Employer by or on behalf of any person results adversely to that person, or if a legal action arises because of conflicting claims to a Participant's or other person's benefits, the cost to the Trustee, the Company or the Employer of defending the action will be charged to the extent permitted by law to the sums, if any, which were involved in the action or were payable to the person concerned.

10.12 Interests Not Transferable. The interests of persons entitled to benefits under the Plan are not subject to their debts or other obligations and, except as may be required by the tax withholding provisions of the Code or any state's income tax act or pursuant to a Qualified Domestic Relations Order as defined in Section 414(p) of the Code, may not be voluntarily or involuntarily sold, transferred, alienated, assigned or encumbered.

10.13 Absence of Guaranty. The Company does not in any way guarantee the Trust Fund from loss or depreciation. The liability of the Trustee, the Company or the Employers to make any payment under the Plan will be limited to the assets held by the Trustee that are available for that purpose.

10.14 Evidence. Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

10.15 Indemnification. Each officer, director and employee of the Company who has been designated to carry out any fiduciary or administrative responsibility shall be indemnified by the Company against all expenses (including costs and attorneys' fees) actually and necessarily incurred or paid by that person in connection with the defense of any action, suit or proceeding in any way relating to or arising from the Plan to which that person may be made a party by reason of his or her being or having been so designated or by reason of any action or omission or alleged action or omission by that person in such capacity, and against any amount or amounts which may be paid by that person (other than to the Company) in reasonable settlement of such action, suit or proceeding, where it is in the interest of the Company that such settlement be made. In cases where such action, suit or proceeding shall proceed to final adjudication such indemnification shall not extend to matters as to which it shall be adjudged that such officer, director or employee is liable for negligence or misconduct in the performance of his or her duties as such. The right of indemnification herein provided shall not be exclusive of other rights to which any such officer, director or employee may now or hereafter be entitled, shall continue as to a person who has ceased to be so designated, and shall inure to the benefit of the heirs, executors and administrators of such officer, director or employee.

10.16 Unclaimed Distributions. If, within five years after any distribution becomes due to a Participant or Inactive Participant, the same shall not have been claimed, provided due and



proper care shall have been exercised by the Trustee and the Employer in attempting to make such distribution, the amount thereof shall be used to reduce Employer Contributions. Should a Participant or Inactive Participant, or Alternate Payee subsequently make proper claim for such amount, it will be paid to the Trust Fund by the Employer and distributed in accordance with the terms of the Plan.

10.17 Plan Expenses. All reasonable and proper expenses incurred in the administration of the Plan shall be paid from the funds held under the Trust Agreement between the Company and the Trustee; provided, however, the Company may pay any of such expenses or reimburse the Trust Fund for any payment, or the Trust Fund may reimburse the Company for any such expenses it has paid.

10.18 Disaster Relief. Notwithstanding any provision of the Plan to the contrary, the Plan shall be administered in accordance with the Katrina Emergency Tax Relief Act of 2005 and any related authority promulgated by any United States administrative agency.

## ARTICLE XI AMENDMENT AND TERMINATION

11.01 Amendment. While the Company expects and intends to continue the Plan, the Company reserves the right to amend the Plan (in accordance with the procedures set forth in Section 10.06) from time to time, except as follows:

- (a) No amendment shall reduce the value of a Participant's benefits to less than the amount he would be entitled to receive if he had resigned from the employ of all of the Employers on the date of the amendment; and
- (b) Except as provided elsewhere in the Plan, under no condition shall an amendment result in the return or repayment to any Employer of any part of the Trust Fund or the income from it or result in the distribution of the Trust Fund for the benefit of anyone other than persons entitled to benefits under the Plan. Notwithstanding the foregoing, the Company, or its delegate, shall have the duty and power revise the Plan, Supplements, Exhibits or Appendices, as well as addenda or amendments thereto, to correct errors, including but not limited to scrivener's errors, to the extent such correction is necessary to reflect the intent of the Plan; provided that such correction shall be applied as if included in the original provisions.

11.02 Termination. The Plan will terminate as to all Employers on any date specified by the Company (in accordance with the procedures set forth in Section 10.06). The Plan will terminate as to an individual Employer on the first to occur of the following:

- (a) The date it is terminated by that Employer (in accordance with the procedures set forth in Section 10.02) if 30 days' advance written notice of the termination is given to the Company, the Trustee and other Employers.
- (b) The date that Employer is judicially declared bankrupt or insolvent.

- (c) The date that either the Company completely discontinues contributions under the Plan on behalf of that Employer or that Employer completely discontinues contributions under the Plan.
- (d) The dissolution, merger, consolidation or reorganization of that Employer, or the sale by the Company or that Employer of all or substantially all of that Employer's assets, except that:
  - (1) in any such event, arrangements may be made with the consent of the Company whereby the Plan will be continued by any successor to that Employer or any purchaser of all or substantially all of its assets, in which case the successor or purchaser will be substituted for that Employer under the Plan and the Trust Agreement; and
  - (2) if an Employer is merged, dissolved, or in any other way reorganized into, or consolidated with, any other Employer, the Plan as applied to the former Employer will automatically continue in effect without a termination thereof.

11.03 Vesting and Distribution on Termination. On termination or partial termination of the Plan, the date of termination will be a "special accounting date" and, after all adjustments then required have been made, each affected Participant's benefits will be nonforfeitable and will be distributable to the Participant or his or her beneficiary in accordance with the provisions of Article VIII.

11.04 Notice of Amendment or Termination. Participants will be notified of an amendment or termination of the Plan in accordance with applicable law.

11.05 Plan Merger, Consolidation, etc. In the case of any merger or consolidation with, or transfer of assets or liabilities to, any other Plan, each Participant's benefits if the Plan terminated immediately after such merger, consolidation or transfer shall be equal to or greater than the benefits he would have been entitled to receive if the Plan had terminated immediately before the merger, consolidation or transfer.

## ARTICLE XII SPECIAL RULES FOR TOP-HEAVY PLANS

12.01 Purpose and Effect. The purpose of this Article XII is to comply with the requirements of Section 416 of the Code. The provisions of this Article XII shall be effective for each Plan Year in which the Plan is a "top-heavy plan" within the meaning of Section 416(g) of the Code. Notwithstanding anything to the contrary, the Plan shall be governed by the then in effect Code Section 416 in the event the Plan is a "top-heavy plan" within the meaning of Code Section 416(g) for any given Plan Year.

12.02 Top-Heavy Plan. In general, the Plan will be a top-heavy plan for any Plan Year if, as of the last day of the preceding Plan Year (the "determination date"), the aggregate Account balances of Participants who are key employees (as defined in Section 416(i) (1) of the

Code) exceed 60 percent of the aggregate Account balances of all Participants. In making the foregoing determination, the following special rules shall apply:

- (a) A Participant's Account balances shall be increased by the aggregate distributions, if any, made with respect to the Participant during the 5-year period ending on the determination date.
- (b) The Account balances of a participant who was previously a key employee, but who is no longer a key employee, shall be disregarded.
- (c) The Accounts of a beneficiary of a Participant shall be considered accounts of the Participant.
- (d) The Account balances of a Participant who did not perform any services for an Employer during the 5-year period ending on the determination date shall be disregarded.

12.03 Key Employee. In general, a "key employee" is an Employee who, at any time during the 5-year period ending on the determination date, is:

- (a) an officer of an Employer receiving annual compensation greater than 50% of the limitation in effect under Section 415(b)(1)(A) of the Code; provided, that for purposes of this subparagraph (a), no more than 50 Employees of the Employers (or if lesser, the greater of 3 Employees or 10 percent of the Employees) shall be treated as officers;
- (b) one of the ten Employees receiving annual compensation from the Employers of more than the limitation in effect under Section 415(c)(1)(A) of the Code and owning both more than a ½ percent interest and the largest interests in the Employers;
- (c) a 5 percent owner of an Employer; or
- (d) a 1 percent owner of an Employer receiving annual compensation from the Employers of more than \$150,000.

12.04 Minimum Vesting. For any Plan Year in which the Plan is a top-heavy Plan, a Participant shall be 100% vested in his or her Employer Contributions after three years of Continuous Service. If the foregoing provisions of this Section 12.04 become effective, and the Plan subsequently ceases to be a top-heavy Plan, each Participant who has then completed three or more years of service may elect to continue to have the vested percentage of his or her Employer Contributions determined under the provisions of this Section 12.04.

12.05 Minimum Employer Contribution. For any Plan Year in which the Plan is a top-heavy Plan, the Employer contribution and forfeitures, if any, credited to each Participant who is not a key employee shall not be less than 3 percent of such Participant's Compensation for that year. In no event, however, shall the Employer Contribution credited in any year to a Participant who is

not a key employee exceed the maximum Employer Contribution credited in that year to a key employee (expressed as percentage of such key employee's compensation).

12.06 Aggregate of Plans. In accordance with Section 416(g)(2) of the Code, other Plans maintained by the Employers may be required or permitted to be aggregated with this Plan for purposes of determining whether the Plan is a top-heavy Plan.

For purposes of determining whether the Plan is a top-heavy Plan for a particular Plan Year, the required aggregation group includes each plan of the Employer in which a key employee participates (in the Plan Year containing the determination date or any of the four preceding Plan Years) and each other plan which enables any plan in which a key employee participates during the period tested to meet the requirements of Code Sections 401(a)(4) or 410(b). A permissive aggregation group consists of the plans of the Employer that are required to be aggregated, plus one or more plans of the Employer that are not part of the required aggregation group but that satisfy the requirements of Code Sections 401(a)(4) and 410(b) when considered together with the required aggregation group.

12.07 No Duplication of Benefits. If the Employers maintain more than one Plan, the minimum Employer Contribution otherwise required under Section 12.05 above may be reduced in accordance with regulations of the Secretary of the Treasury to prevent inappropriate duplication of minimum contributions or benefits.

12.08 Adjustment of Combined Benefit Limitations. For any Plan Year in which the Plan is a top-heavy Plan, the determination of the defined contribution plan fraction and defined benefit plan fraction under Section 9.10 of the Plan shall be adjusted in accordance with the provisions of Section 416(h) of the Code.

12.09 Use of Terms. All terms and provisions of the Plan shall apply to this Article XII, except that where the terms and provisions of the Plan and this Article XII conflict, the terms and provisions of this Article XII shall govern.

12.10 Modification of Top-Heavy Rules. Effective as of January 1, 2002, the following provisions shall supersede any provisions to the contrary contained in this Article XII:

- (a) Key Employee. Key employee means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date was an officer of an Employer having annual compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of an Employer, or a 1-percent owner of an Employer having annual compensation of more than \$150,000. For this purpose, annual compensation means compensation within the meaning of Section 415(c)(3) of the Code. In all cases, the determination of who is a key employee will be made in accordance with Section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

- (b) Distributions during year ending on the determination date. The present values of accrued benefits and the amounts of Account balances of an Employee as of the determination date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under Section 416(g)(2) of the Code during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than termination of employment, death, or Disability, this provision shall be applied by substituting "5-year period" for "1-year period."
- (c) Employees not performing services during year ending on the determination date. The accrued benefits and Accounts of any individual who has not performed services for an Employer during the 1-year period ending on the determination date shall not be taken into account.
- (d) Matching contributions. Employer Matching Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Section 416(c)(2) of the Code and the Plan. The preceding sentence shall apply with respect to Employer Matching Contributions under the Plan or, if the Plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Employer Matching Contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of Section 401(m) of the Code.

**GENERAL DYNAMICS CORPORATION  
HOURLY EMPLOYEES' SAVINGS AND STOCK INVESTMENT PLAN**

**Supplement H - General Dynamics Ordnance and Tactical Systems, Inc**

- H-1** Purpose, Superseding Provision. Except as described in Paragraph H-2, the purpose of this Supplement H is to provide for certain Plan provisions for those Eligible Employees of the Employing Units listed in Exhibit A to this Supplement (the "Supplement H Employees"). This Supplement forms part of the Plan to which it is attached, and its terms shall supersede other provisions of the Plan to the extent such provisions are inconsistent with this Supplement. The terms and provisions of this Supplement are effective for such Supplement H Employees for the applicable time periods indicated in Exhibit A (or as otherwise indicated herein in this Supplement).
- H-2** Prime Plan Governance. Effective February 28, 2002, the General Dynamics Ordnance and Tactical Systems, Inc. Retirement Investment Management Experience Plan (the "Prime Plan") was merged with and into the General Dynamics Corporation Savings and Stock Investment Plan. From February 28, 2002 to November 1, 2003, the Supplement H Employees' Plan terms and conditions was governed by the Prime Plan document (as amended from time to time), provided in relevant part that (i) only eligible employees of General Dynamics Ordnance and Tactical Systems, Inc. participated in this Plan pursuant to the merger of the Prime Plan hereto; and (ii) General Dynamics Corporation was substituted for General Dynamics Ordnance and Tactical Systems, Inc. (and its board of directors) (collectively, the "Predecessor") as the sponsor of the Prime Plan and assumed and was vested with all the powers, duties, rights, privileges and obligations of the Predecessor thereunder, effective as of February 28, 2002.
- Effective on and after November 1, 2003, the Supplement H Employees' Plan terms and conditions shall be governed by the provisions of this Supplement and the terms of the Prime Plan, as merged under the General Dynamics Corporation Savings and Stock Investment Plan, were deleted in their entirety. Effective as of the same date, the accounts of all hourly-paid Supplement H Employees were transferred to the Plan and covered by the terms and provisions of this Supplement H.
- H-3** Deferral Pay. A Supplement H Employee's "Deferral Pay" shall mean his or her annual base salary, up to the equivalent of 2,080 hours of pay, where applicable (or 2,120 hours' pay in years when there are 53 weeks in the accounting year), as reported by the Employing Unit, prior to any reduction for 401(k) Contributions, and prior to reduction for deferrals of base salary under any other plan of deferred compensation maintained by the Company, as shown by the records of the Employing Unit or the Company, including overtime, shift differential, lump-sum merit awards, and other special award bonuses (only to the extent that they shall be deemed by the Company, under uniform rules prescribed by it, to be part of regular compensation), but shall not include payments under the Incentive Compensation Plan of General Dynamics Corporation, payments of deferred compensation, lump sum payments made in lieu of base salary increases, expense or living allowances, vacation pay, severance payments, disability benefits, royalties or payments of like nature. Payments under any other incentive compensation plan, bonuses and commissions paid to a Supplement H Employee



shall be included in Deferral Pay only to the extent that they shall be deemed by the Company, under uniform rules prescribed by it, to be part of regular compensation. Any other compensation shall be excluded from Deferral Pay unless the inclusion of such compensation is specifically approved by the Company for all Eligible Employees of the Employing Unit in which the Supplement H Employee is employed. No compensation shall be included as Deferral Pay pursuant to the preceding unless reflected in an amendment to the Plan. For Plan Years commencing on or after January 1, 2006, Deferral Pay shall not include annual compensation in excess of \$220,000 per year, or such other amount, as adjusted for cost-of-living increases as may be determined under Code Section 401(a)(17) or any successor provision thereto.

- H-4 Participant Contributions. A Supplement H Employee's contribution rate elections, if any, in effect immediately prior to November 1, 2003 under the provisions and terms of the General Dynamics Corporation Savings and Stock Investment Plan shall apply under this Plan unless otherwise subsequently changed in accordance with this paragraph. In accordance with Section 4.01 of the Plan, a Supplement H Employee may elect to make 401(k) Contributions in an amount equal to not less than one percent and not more than fifty percent (in multiples of one percent) of his or her Deferral Pay. A Supplement H Employee may also elect to make After-Tax Contributions in an amount equal to not less than one percent and not more than fifty percent (in multiples of one percent) of his or her Deferral Pay. In no event shall a Supplement H Employee's 401(k) Contributions and After-Tax Contributions in the aggregate exceed fifty percent of his or her Deferral Pay.

A Supplement H Employee who is a Highly Compensated Employee may make 401(k) Contributions and/or After-Tax Contributions that are in the aggregate equal to no more than eight percent (in multiples of one percent) of his or her Deferral Pay. Notwithstanding the foregoing, the Plan Administrator may from time to time impose limitations on the amount of 401(k) Contributions that may be made by a Highly Compensated Employee.

- H-5 Employer Matching Contributions. The applicable percentage of Employer Matching Contributions under Section 5.01 of the Plan shall be 50 percent. Employer Matching Contributions shall be made only with respect to the first six percent of Deferral Pay contributed under Section 4.01 and 4.03 of the Plan. Employer Matching Contributions shall be made with respect to both 401(k) Contributions and After-Tax Contributions; however 401(k) Contributions shall be subject to Employer Matching Contributions first, after which After-Tax Contributions shall be subject to Employer Matching Contributions.
- H-6 Vesting. Supplement I Employees shall be 100% vested at all times in their 401(k) Contributions, After-Tax Contributions and Rollover Contributions and earnings allocated thereon. Supplement H Employees hired before November 1, 2003 shall be fully vested in all Employer Contributions and earnings allocated thereon at all times. Supplement H Employees hired on or after November 1, 2003 shall be fully vested in all Employer Contributions and earnings allocated thereon upon the completion of three years of Continuous Service.



- H-7 Loans. A Supplement H Employee may obtain a loan from the Plan in accordance with the rules set forth in Section 8.11 of the Plan document.

Notwithstanding any administrative policy to the contrary, such accounts of the Prime Plan transferred to any Plan Accounts as provided in paragraph H-2 of this Supplement may include any outstanding loan a Supplement H Employee may have. Such loan shall be counted towards the maximum number of loans a Supplement H Employee may obtain. As provided under Section 8.11 of the Plan, the maximum number of loans a Supplement H Employee may have under the Plan is two loans. Notwithstanding the foregoing, a Supplement H Employee shall be permitted to transfer (as provided under the first sentence of this paragraph) outstanding loans into the Plan that exceed two in number; provided, however, that such Supplement H Employee shall be required to reduce the number of such outstanding loans to one (or zero) before being able to take another loan under the Plan. After such reduction in number of outstanding loans occurs, such Supplement H Employee shall be limited to a maximum of two loans under the Plan as provided under Section 8.11 of the Plan.

- H-8 Automatic Enrollment. This paragraph shall apply to Supplement H Employees of the Employing Unit's St. Mark's facility. Such an employee shall become a Participant on the first business day (or as soon as administrative feasible thereafter) coincident with or next following the date which is thirty (30) days after such employee's hire date, provided that such employee shall not have made an affirmative election (on forms and/or in a manner prescribed by the Plan Administrator) to not become a Participant as of such date. The Plan Administrator shall provide such employee timely notice explaining his or her rights to elect to not become a Participant and to not have any 401(k) Contributions made on his or her behalf under the Plan.

A Supplement H Employee becoming a Participant pursuant to the above paragraph (who does not designate an alternative rate of contributions in accordance with Article IV of the Plan) shall have a 401(k) Contribution rate of 3% of his or her Deferral Pay until changed in accordance with Article IV of the Plan. Such an employee becoming a Participant pursuant to the above paragraph (who does not elect investment fund allocations in accordance with Article VI of the Plan) shall be deemed to have directed such 401(k) Contributions to be invested in the Fixed Income Fund until otherwise subsequently changed in accordance with Article VI.

- H-9 OTS (Garland). This paragraph H-9 shall apply to those Supplement H Employees who were employed by Datron, Inc. and who became employed by General Dynamics OTS (Garland), L.P. pursuant to the Asset Purchase Agreement dated July 24, 2003 by and between Datron, Inc. and General Dynamics OTS (Garland), L.P. The Supplement H Employees described in the preceding sentence shall be eligible to participate in the Plan effective as of October 6, 2003. In addition to the definition of "Continuous Service" set forth in Section 7.02(d) of the Plan, for a Supplement H Employee who is employed by General Dynamics OTS (Garland), L.P. "employment with the Affiliated Group" shall include employment with Datron, Inc. prior to the effective date of their transfer to General Dynamics OTS (Garland), L.P.

**Exhibit A to Supplement H**

**Employing Units**

General Dynamics Ordnance and Tactical Systems, Inc

**Effective Date**

November 1,  
2003

# DODGE & COX FUNDS

## *Stock Fund*

Established 1965

*(Closed to New Investors)*

## *International Stock Fund*

Established 2001

## *Balanced Fund*

Established 1931

*(Closed to New Investors)*

## *Income Fund*

Established 1989



The Funds' investment manager, Dodge & Cox, was founded in 1930 and managed over \$166 billion for individual and institutional investors in mutual fund and private accounts as of December 31, 2005. Dodge & Cox is one of the largest privately owned investment advisers in the United States.

## Prospectus

May 1, 2006

### Table of Contents

Risk/Return Summary	2	Income Dividends and Capital Gain Distributions	23
Investment Objectives, Principal Investment Strategies, Related Risks and Disclosure of Portfolio Holdings	9	Fund Organization and Management	24
• Investment Restrictions	12	Investment Committees	24
• Investment Risks	12	Portfolio Transactions	26
• Disclosure of Portfolio Holdings	13	Expenses	26
• Additional Information on Investments	13	Federal Income Taxes	26
How to Purchase Shares	15	Custodian and Transfer Agent	27
How to Redeem or Exchange Shares	18	Investment Information and Shareholder Services	27
General Transaction Information	20	Financial Highlights	29
Pricing of Shares	22	Officers and Trustees	31
		Privacy Policy	31

Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve, or any other government agency, and are subject to investment risks, including possible loss of the principal amount invested.

GD 00000722

## RISK/RETURN SUMMARY

**DODGE & COX FUNDS (Trust)** is a family of four no-load mutual funds: Dodge & Cox Stock Fund, Dodge & Cox International Stock Fund, Dodge & Cox Balanced Fund and Dodge & Cox Income Fund (Funds). Each Fund is a diversified series of the Trust. The Trust is registered with the Securities and Exchange Commission (SEC) as an open-end management investment company.

### Dodge & Cox Stock Fund (Closed to New Investors)

#### Investment Objectives

The Fund seeks long-term growth of principal and income. A secondary objective is to achieve a reasonable current income.

#### Principal Investment Strategies

The Fund invests primarily in a broadly diversified portfolio of common stocks. In selecting investments, the Fund invests in companies that, in Dodge & Cox's opinion, appear to be temporarily undervalued by the stock market but have a favorable outlook for long-term growth. The Fund focuses on the underlying financial condition and prospects of individual companies, including future earnings, cash flow and dividends. Various other factors, including financial strength, economic condition, competitive advantage, quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities.

For details about the Fund's investment program, please see the Investment Objectives, Principal Investment Strategies, Related Risks and Disclosure of Portfolio Holdings section.

#### Principal Risks of Investing

You could lose money on your investment in the Fund, or the Fund could underperform other investments, for any of the following reasons:

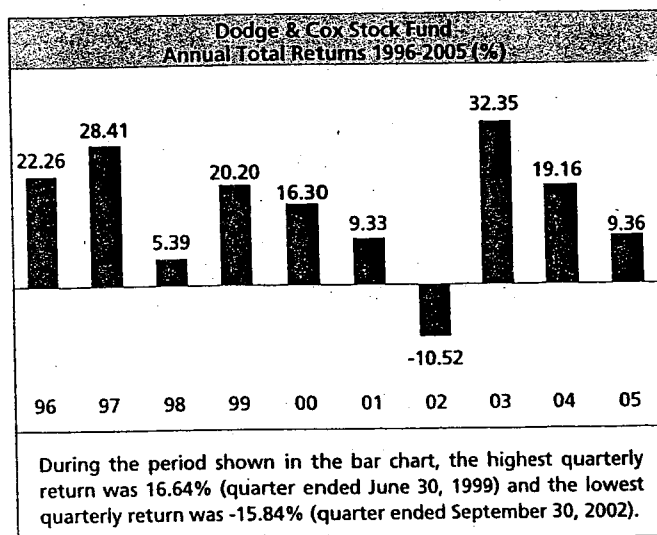
- The stock market goes down.
- The market continues to undervalue the stocks in the Fund's portfolio.
- Dodge & Cox's opinion about the intrinsic worth of a company or security is incorrect.

#### Performance Information

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows changes in the Fund's returns from year to year over the past 10 calendar years.

The table shows how the Fund's average annual total returns for one, five and ten years compare to those of the Standard & Poor's® 500 Composite Index (S&P 500). The S&P 500® is a widely recognized, unmanaged index of common stock prices.

The Fund's past performance (before and after taxes) does not necessarily indicate how the Fund will perform in the future.



#### Average annual total returns for the periods ended 12/31/05

	Past 1 Year	Past 5 Years	Past 10 Years
<b>Dodge &amp; Cox Stock Fund</b>			
Return before taxes	9.36%	11.03%	14.59%
Return after taxes on distributions	8.73	10.14	12.78
Return after taxes on distributions and sale of Fund shares	6.83	9.20	12.06
<b>S&amp;P 500 (reflects no deduction for expenses or taxes)</b>	4.92	0.55	9.08

After-tax returns are calculated using the historical highest individual federal marginal income tax rates, but do not reflect the impact of state or local taxes. Actual after-tax

returns may differ depending on your individual circumstances. After-tax return figures do not apply to you if you hold your Fund shares through a tax-deferred arrangement such as a 401(k) plan or an individual retirement account.

### Fees and Expenses

The following table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (paid directly from your investment)	
Sales load imposed on purchases	None
Deferred sales load	None
Sales load imposed on reinvested distributions	None
Redemption fee	None
Exchange fee	None
Annual Fund Operating Expenses (deducted from Fund assets)	
Management fees	.50%
Distribution (12b-1) and/or service fees	None
Other expenses (transfer agent, custodial, accounting, legal, etc.)	.02%
<b>Total Fund Operating Expenses</b>	<b>.52%</b>

**EXAMPLE:** This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The example assumes that:

- You invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods;
- Your investment has a 5% return each year; and
- The Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, under these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
\$53	\$167	\$291	\$653

This example should not be considered to represent actual expenses or performance from the past or for the future.

## Dodge & Cox International Stock Fund

### Investment Objective

The Fund seeks long-term growth of principal and income.

### Principal Investment Strategies

The Fund invests primarily in a diversified portfolio of equity securities issued by non-U.S. companies from at least three different foreign countries, including emerging markets. The Fund focuses on countries whose economic and political systems appear more stable and are believed to provide some protection to foreign shareholders. The Fund invests primarily in medium-to-large well established companies based on standards of the applicable market.

In selecting investments, the Fund invests primarily in companies that, in Dodge & Cox's opinion, appear to be temporarily undervalued by the stock market but have a favorable outlook for long-term growth. The Fund also focuses on the underlying financial condition and prospects of individual companies, including future earnings, cash flow and dividends. Various other factors, including financial strength, economic condition, competitive advantage, quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities.

For details about the Fund's investment program, please see the Investment Objectives, Principal Investment Strategies, Related Risks and Disclosure of Portfolio Holdings section.

### Principal Risks of Investing

You could lose money on your investment in the Fund, or the Fund could underperform other investments, for any of the following reasons:

- The stock markets in the countries in which the Fund invests go down.
- Markets continue to undervalue the stocks in the Fund's portfolio.
- Dodge & Cox's opinion about the intrinsic worth of a company or security is incorrect.

Since the Fund invests primarily in securities of foreign companies, there is a greater risk that the Fund's share price will fluctuate more than if the Fund invested in U.S. issuers. Prices of foreign securities may go down (as well as your investment) for any of the following additional reasons:

- Unfavorable foreign government actions, political, economic or market instability or the absence of accurate information about foreign companies.



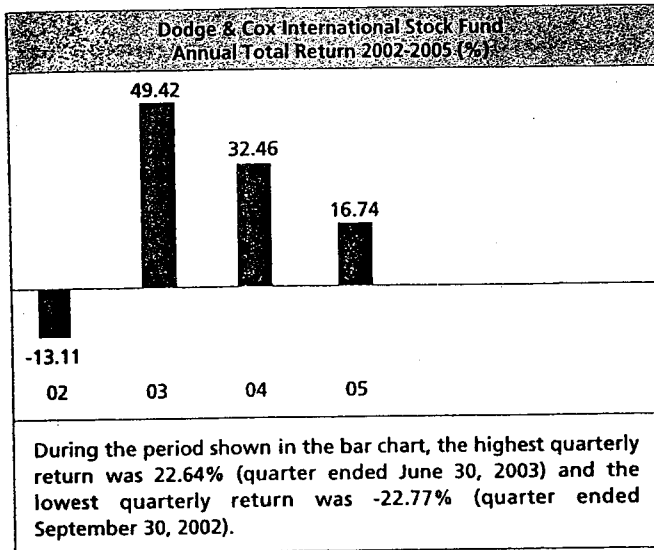
- A decline in the value of foreign currencies relative to the U.S. dollar, which reduces the unhedged value of securities denominated in those currencies.
- Foreign securities are sometimes less liquid, more volatile and harder to value than securities of U.S. issuers.
- Lack of uniform accounting, auditing, and financial reporting standards, with less governmental regulation and oversight than U.S. companies.

#### Performance Information

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows the Fund's returns only for the calendar years 2002 through 2005, since the Fund did not begin operations as a registered investment company until April 30, 2001.

The table shows how the Fund's average annual total returns for one year and since inception compare to that of the Morgan Stanley Capital® International, Europe, Australasia, Far East Index (MSCI EAFE). The MSCI® EAFE® is an unmanaged index of the world's stock markets, excluding the United States.

The Fund's past performance (before and after taxes) does not necessarily indicate how the Fund will perform in the future.



#### Average annual total returns for the periods ended 12/31/05

	Past 1 Year	Since Inception (5/1/01)
<b>Dodge &amp; Cox International Stock Fund</b>		
Return before taxes	16.74%	14.29%
Return after taxes on distributions	16.51	14.07
Return after taxes on distributions and sale of Fund shares	11.50	12.50
<b>MSCI EAFE (reflects no deduction for expenses or taxes)</b>	<b>13.54</b>	<b>6.70</b>

After-tax returns are calculated using the historical highest individual federal marginal income tax rates, but do not reflect the impact of state or local taxes. Actual after-tax returns may differ depending on your individual circumstances. After-tax return figures do not apply to you if you hold your Fund shares through a tax-deferred arrangement such as a 401(k) plan or an individual retirement account.

#### Fees and Expenses

The following table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

<b>Shareholder Fees</b> (paid directly from your investment)	
Sales load imposed on purchases	None
Deferred sales load	None
Sales load imposed on reinvested distributions	None
Redemption fee	None
Exchange fee	None
<b>Annual Fund Operating Expenses</b> (deducted from Fund assets)	
Management fees	.60%
Distribution (12b-1) and/or service fees	None
Other expenses (transfer agent, custodial, accounting, legal, etc.)	.10%
<b>Total Fund Operating Expenses</b>	<b>.70%</b>

**EXAMPLE:** This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The example assumes that:

- You invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods;
- Your investment has a 5% return each year; and

- The Fund's operating expenses remain the same.
- Although your actual costs may be higher or lower, under these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
\$72	\$224	\$390	\$871

This example should not be considered to represent actual expenses or performance from the past or for the future.

## **Dodge & Cox Balanced Fund**

*(Closed to New Investors)*

### **Investment Objectives**

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income.

### **Principal Investment Strategies**

The Fund invests in a diversified portfolio of common stocks, preferred stocks and fixed-income securities. In selecting equity investments, the Fund invests in companies that, in Dodge & Cox's opinion, appear to be temporarily undervalued by the stock market and have a favorable outlook for long-term growth. The Fund focuses on the underlying financial condition and prospects of individual companies, including future earnings, cash flow and dividends. Various other factors, including financial strength, economic condition, competitive advantage, quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities.

Fixed-income investments primarily include investment-grade (top four credit ratings): U.S. government obligations, mortgage and asset-backed securities, corporate bonds, collateralized mortgage obligations (CMOs), and other fixed-income securities. To a lesser extent, the Fund may also invest in below investment-grade fixed-income securities. The proportions held in the various fixed-income securities will be revised in light of Dodge & Cox's appraisal of the economy, the relative yields of securities in the various market sectors, the investment prospects for issuers and other factors. In selecting fixed-income securities, Dodge & Cox will consider many factors, including yield-to-maturity, quality, liquidity, call risk, current yield and capital appreciation potential.

While the mix of equity and fixed-income securities will vary depending on Dodge & Cox's outlook on the markets, no more than 75% of total assets will be invested in common stocks, preferred stocks and that portion of the value of convertible securities attributable to the conversion right.

For details about the Fund's investment program, please see the Investment Objectives, Principal Investment Strategies, Related Risks and Disclosure of Portfolio Holdings section.

### **Principal Risks of Investing**

You could lose money on your investment in the Fund, or the Fund could underperform other investments, for any of the following reasons:

#### **Equity Securities**

- The stock market goes down.
- The market continues to undervalue the stocks in the Fund's portfolio.
- Dodge & Cox's opinion about the intrinsic worth of a company or security is incorrect.

#### **Fixed-Income Securities**

- Fixed-income securities' prices decline due to rising interest rates.
- A fixed-income security issuer's financial condition deteriorates, or it fails to repay interest and/or principal in a timely manner.
- Early repayment of principal (e.g., prepayment of principal due to sale of the underlying property, refinancing or foreclosure) of mortgage-related securities (or other callable securities) exposes the Fund to a lower rate of return upon reinvestment of principal. In addition, changes in the rate of prepayment also affect the price and price volatility of a mortgage-related security.
- Dodge & Cox's opinion about the creditworthiness of a company or intrinsic worth of a security is incorrect.
- Certain U.S. government sponsored enterprises (GSEs) (such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)) may be chartered or sponsored by Acts of Congress; however, their securities are neither issued nor guaranteed by the U.S. Treasury. In the event that these GSEs cannot meet their obligations, there can be no assurance that the U.S. government would provide support, and the Fund's performance could be adversely impacted.

The Fund's balance between stocks and fixed-income securities could limit its potential for capital appreciation relative to an all-stock fund.

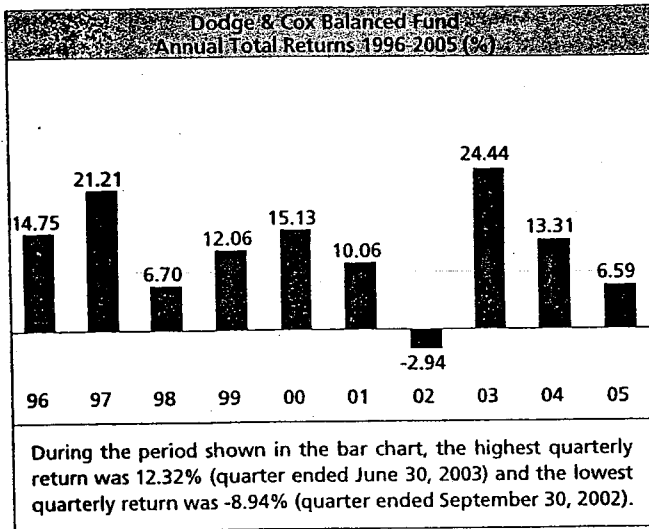


### Performance Information

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows changes in the Fund's returns from year to year over the past 10 calendar years.

The table shows how the Fund's average annual total returns for one, five and ten years compare to a Combined Index consisting of 60% of the Standard & Poor's® 500 Composite Index (S&P 500) and 40% of the Lehman Brothers® Aggregate Bond Index (LBAG). The S&P 500 and LBAG are widely recognized, unmanaged indices of common stock prices and U.S. dollar-denominated, investment-grade fixed-income securities, respectively.

The Fund's past performance (before and after taxes) does not necessarily indicate how the Fund will perform in the future.



Average annual total returns for the periods ended 12/31/05

	Past 1 Year	Past 5 Years	Past 10 Years
<b>Dodge &amp; Cox Balanced Fund</b>			
Return before taxes	6.59%	9.93%	11.88%
Return after taxes on distributions	5.69	8.59	9.67
Return after taxes on distributions and sale of Fund shares	4.80	7.90	9.22
<b>Combined Index (60% S&amp;P 500 &amp; 40% LBAG) (reflects no deduction for expenses or taxes)</b>	<b>4.00</b>	<b>2.99</b>	<b>8.25</b>
<b>S&amp;P 500 (reflects no deduction for expenses or taxes)</b>	<b>4.92</b>	<b>0.55</b>	<b>9.08</b>
<b>LBAG (reflects no deduction for expenses or taxes)</b>	<b>2.43</b>	<b>5.87</b>	<b>6.16</b>

After-tax returns are calculated using the historical highest individual federal marginal income tax rates, but do not reflect the impact of state or local taxes. Actual after-tax returns may differ depending on your individual circumstances. After-tax return figures do not apply to you if you hold your Fund shares through a tax-deferred arrangement such as a 401(k) plan or an individual retirement account.

### Fees and Expenses

The following table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

<b>Shareholder Fees</b> (paid directly from your investment)	
Sales load imposed on purchases	None
Deferred sales load	None
Sales load imposed on reinvested distributions	None
Redemption fee	None
Exchange fee	None
<b>Annual Fund Operating Expenses</b> (deducted from Fund assets)	
Management fees	.50%
Distribution (12b-1) and/or service fees	None
Other expenses (transfer agent, custodial, accounting, legal, etc.)	.03%
<b>Total Fund Operating Expenses</b>	<b>.53%</b>

**EXAMPLE:** This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The example assumes that:

- You invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those time periods;
- Your investment has a 5% return each year; and
- The Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, under these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
\$54	\$170	\$296	\$665

This example should not be considered to represent actual expenses or performance from the past or for the future.

## Dodge & Cox Income Fund

### Investment Objectives

The Fund seeks a high and stable rate of current income, consistent with long-term preservation of capital. A secondary objective is to take advantage of opportunities to realize capital appreciation.

### Principal Investment Strategies

The Fund invests primarily in a diversified portfolio of high-quality bonds and other fixed-income securities, including U.S. government obligations, mortgage and asset-backed securities, corporate bonds, collateralized mortgage obligations (CMOs) and other fixed-income securities rated A or better by either Standard & Poor's Ratings Group (S&P), Fitch Ratings (Fitch) or Moody's Investors Service® (Moody's) or equivalently rated by any other nationally recognized statistical rating organization (NRSRO). To a lesser extent, the Fund may also invest in fixed-income securities rated Baa or lower by Moody's or BBB or lower by S&P or Fitch or equivalently rated by any NRSRO. An explanation of Moody's, Fitch's and S&P's rating groups is included in Appendix A to the Statement of Additional Information (SAI).

The proportions held in the various fixed-income securities will be revised in light of Dodge & Cox's appraisal of the economy, the relative yields of securities in the various market sectors, the investment prospects for issuers and other factors. In selecting securities, Dodge & Cox will consider many factors, including yield-to-maturity, quality, liquidity, call risk, current yield and capital appreciation potential.

For details about the Fund's investment program, please see the Investment Objectives, Principal Investment Strategies, Related Risks and Disclosure of Portfolio Holdings section.

### Principal Risks of Investing

You could lose money on your investment in the Fund, or the Fund could underperform other investments, for any of the following reasons:

- Fixed-income securities' prices decline due to rising interest rates.
- A fixed-income security issuer's financial condition deteriorates, or it fails to repay interest and/or principal in a timely manner.
- Early repayment of principal (e.g., prepayment of principal due to sale of the underlying property, refinancing or foreclosure) of mortgage-related securities (or other callable securities) exposes the Fund to a lower rate of return upon

reinvestment of principal. In addition, changes in the rate of prepayment also affect the price and price volatility of a mortgage-related security.

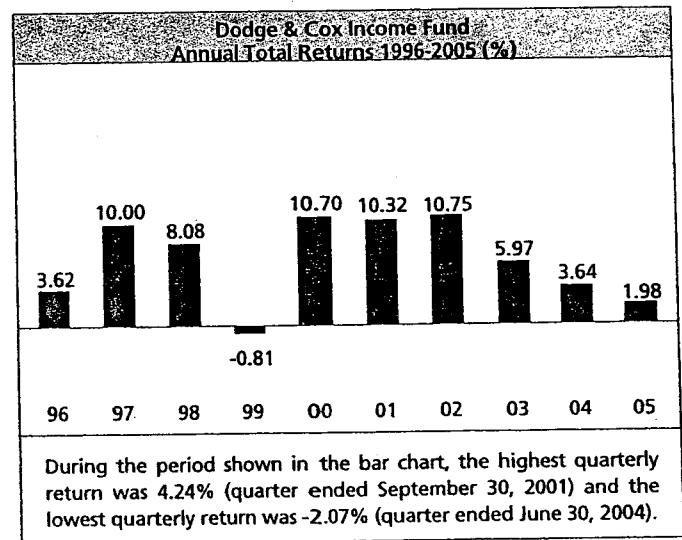
- Dodge & Cox's opinion about the creditworthiness of a company or intrinsic worth of a security is incorrect.
- Certain U.S. government sponsored enterprises (GSEs) (such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)) may be chartered or sponsored by Acts of Congress; however, their securities are neither issued nor guaranteed by the U.S. Treasury. In the event that these GSEs cannot meet their obligations, there can be no assurance that the U.S. government would provide support, and the Fund's performance could be adversely impacted.

### Performance Information

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows changes in the Fund's returns from year to year over the past 10 calendar years.

The table shows how the Fund's average annual total returns for one, five and ten years compare to those of the Lehman Brothers® Aggregate Bond Index (LBAG). The LBAG is a widely recognized, unmanaged index of U.S. dollar-denominated investment-grade fixed-income securities.

The Fund's past performance (before and after taxes) does not necessarily indicate how the Fund will perform in the future.



**Average annual total returns for the periods ended 12/31/05**

	Past 1 Year	Past 5 Years	Past 10 Years
<b>Dodge &amp; Cox Income Fund</b>			
Return before taxes	1.98%	6.48%	6.35%
Return after taxes on distributions	0.46	4.54	4.07
Return after taxes on distributions and sale of Fund shares	1.28	4.38	4.01
<b>LBAG (reflects no deduction for expenses or taxes)</b>	<b>2.43</b>	<b>5.87</b>	<b>6.16</b>

After-tax returns are calculated using the historical highest individual federal marginal income tax rates, but do not reflect the impact of state or local taxes. Actual after-tax returns may differ depending on your individual circumstances. After-tax return figures do not apply to you if you hold your Fund shares through a tax-deferred arrangement such as a 401(k) plan or an individual retirement account.

**Fees and Expenses**

The following table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

<b>Shareholder Fees</b> (paid directly from your investment)	
Sales load imposed on purchases	None
Deferred sales load	None
Sales load imposed on reinvested distributions	None
Redemption fee	None
Exchange fee	None
<b>Annual Fund Operating Expenses</b> (deducted from Fund assets)	
Management fees	.40%
Distribution (12b-1) and/or service fees	None
Other expenses (transfer agent, custodial, accounting, legal, etc.)	.04%
<b>Total Fund Operating Expenses</b>	<b>.44%</b>

**EXAMPLE:** This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The example assumes that:

- You invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods;
- Your investment has a 5% return each year; and
- The Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, under these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
\$45	\$141	\$246	\$555

**This example should not be considered to represent actual expenses or performance from the past or for the future.**

## INVESTMENT OBJECTIVES, PRINCIPAL INVESTMENT STRATEGIES, RELATED RISKS AND DISCLOSURE OF PORTFOLIO HOLDINGS

This section takes a closer look at the investment objectives of each Fund, their principal investment strategies and certain risks of investing in each Fund. This section also provides information regarding the Funds' disclosure of portfolio holdings.

### Dodge & Cox Stock Fund

#### Investment Objectives and Principal Investment Strategies

The Fund's primary objective is to provide shareholders with an opportunity for long-term growth of principal and income. A secondary objective is to achieve a reasonable current income. These objectives may not be changed without shareholder approval. Investors should recognize that the market risks inherent in investment cannot be avoided, nor is there any assurance that the investment objectives of the Fund will be achieved. The Fund seeks to achieve its objective by investing primarily in a diversified portfolio of common stocks. Under normal circumstances, the Fund will invest at least 80% of its total assets in common stocks including those securities of foreign issuers included in the S&P 500. The Fund may also purchase other types of securities, for example, preferred stocks and debt securities which are convertible into common stock (or which, in the opinion of Dodge & Cox, have predominantly common stock investment characteristics). The Fund may also invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded in the U.S. (such as American Depositary Receipts (ADRs)) that are not included in the S&P 500. Further information about specific investments is provided under **Additional Information on Investments**.

Moderate reserves in cash or short-term fixed-income securities may be held from time to time as Dodge & Cox may deem advisable. For temporary, defensive purposes, the Fund may invest, without limitation, in U.S. dollar-denominated money market securities. As a result of taking this defensive position, the Fund may not achieve its investment objectives. Nevertheless, the long-term emphasis is to maintain a fully invested equity fund.

Securities selected for the Fund are predominantly those which, in the view of Dodge & Cox, have positive prospects for long-term growth of principal and income not reflected in the current price. Prospective earnings, cash flow and dividends are considered in making these stock selections. Various other factors, including financial strength, economic condition, competitive advantage,

quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities. The Fund's policies as described above may be changed without shareholder approval; however, these policies will not be changed without 60 days prior notice to shareholders.

In an attempt to minimize unforeseen risks in holding the securities of a single issuer, the Fund seeks to provide investment diversification. Although there is no restriction on the number of changes in security holdings, purchases are made with a view to long-term holding and not for short-term trading purposes. (The Fund's portfolio turnover rates for the fiscal years ended December 31, 2005, 2004, and 2003 were 12%, 11%, and 8%, respectively.) However, during rapidly changing economic, market and political conditions, portfolio turnover may be higher than in a more stable period. A higher turnover rate might result in increased transaction expenses and the realization of capital gains and losses (see **Federal Income Taxes**). It is the general practice of the Fund to invest in securities with ready markets, mainly issues listed on national securities exchanges.

### Dodge & Cox International Stock Fund

#### Investment Objective and Principal Investment Strategies

The Fund's objective is to provide shareholders with an opportunity for long-term growth of principal and income. This objective may not be changed without shareholder approval. Investors should recognize that the market risks inherent in investment cannot be avoided, nor is there any assurance that the investment objective of the Fund will be achieved.

The Fund seeks to achieve its objective by investing primarily in a diversified portfolio of equity securities issued by non-U.S. companies from at least three different foreign countries, including emerging markets. Under normal circumstances, the Fund will invest at least 80% of its total assets in common stocks, preferred stocks, securities convertible into common stocks and securities that carry the right to buy common stocks of non-U.S. companies excluding non-U.S. companies included in the S&P 500. The Fund also invests in American, European and Global Depositary Receipts. Further information about specific investments is provided under **Additional Information on Investments**.



Moderate reserves in cash or short-term fixed-income securities may be held from time to time as Dodge & Cox may deem advisable. For temporary, defensive purposes, the Fund may invest, without limitation, in U.S. dollar-denominated money market securities. As a result of taking this defensive position, the Fund may not achieve its investment objective. Nevertheless, the long-term emphasis is to maintain a fully invested equity fund.

Securities selected for the Fund are predominantly those which, in the view of Dodge & Cox, have positive prospects for long-term growth of principal and income not reflected in the current price. Prospective earnings, cash flow and dividends are considered in making these stock selections. Various other factors, including financial strength, economic condition, competitive advantage, quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities. The Fund's policies as described above may be changed without shareholder approval; however, these policies will not be changed without 60 days prior notice to shareholders.

In an attempt to minimize unforeseen risks in holding the securities of a single issuer, the Fund seeks to provide investment diversification. Although there is no restriction on the number of changes in security holdings, purchases are made with a view to long-term holding and not for short-term trading purposes. (The Fund's portfolio turnover rates for the fiscal years ended December 31, 2005, 2004, and 2003 were 7%, 6%, and 11%, respectively.) However, during rapidly changing economic, market and political conditions, portfolio turnover may be higher than in a more stable period. A higher turnover rate might result in increased transaction expenses and the realization of capital gains and losses (see **Federal Income Taxes**). It is the general practice of the Fund to invest in foreign securities with ready markets, mainly issues listed on U.S. and foreign national securities exchanges.

## **Dodge & Cox Balanced Fund**

### **Investment Objectives and Principal Investment Strategies**

The Fund's objectives are to provide shareholders with regular income, conservation of principal and an opportunity for long-term growth of principal and income. These objectives may not be changed without shareholder approval. Investors should recognize that the market risks inherent in investment cannot be avoided, nor is there any assurance that the investment objectives of the Fund will be achieved. Reasonable appreciation in favor-

able periods and conservation of principal in adverse times are objectives that require flexibility in managing the assets of the Fund under constantly changing investment conditions. Therefore, the proportions held in common and preferred stocks and fixed-income securities are revised by Dodge & Cox when considered advisable in light of Dodge & Cox's appraisal of business and investment prospects.

Under normal circumstances, it is the policy of the Fund to maintain no more than 75% of its total assets in common stocks, preferred stocks and that portion of the value of convertible securities attributable to the conversion right including securities of foreign issuers included in the S&P 500. Fixed-income securities are held for their relative stability of principal and income, as well as for a reserve which can be used to take advantage of investment opportunities. The Fund may also invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded in the U.S. (such as ADRs and Yankee bonds) that are not included in the S&P 500. Moderate reserves in cash or short-term fixed-income securities may be held from time to time as Dodge & Cox may deem advisable. For temporary, defensive purposes, the Fund may invest, without limitation, in U.S. dollar-denominated money market securities. As a result of taking this defensive position, the Fund may not achieve its investment objectives. Further information about specific investments is provided under **Additional Information on Investments**.

It is the Fund's policy to invest the fixed-income portion of the Fund primarily in investment-grade debt securities rated Baa or higher by Moody's or BBB or higher by S&P or Fitch or equivalently rated by any NRSRO. A maximum of 20% of the fixed-income portion of the Fund may be invested in debt obligations rated below investment grade if, in the opinion of Dodge & Cox, they are of suitable quality, provide attractive investment opportunities and have a minimum rating of B by Moody's, S&P or Fitch or equivalently rated by any NRSRO. Unrated debt securities may be purchased if deemed to be of investment grade quality by Dodge & Cox. Securities rated Baa or BBB or below have speculative characteristics. Securities rated B may yield a higher level of current income than higher-quality securities, but generally have less liquidity, greater credit risk and more price volatility. An explanation of Moody's, Fitch's and S&P's rating categories is included in Appendix A to the SAI.

A substantial portion of the Fund's assets will be maintained in common stocks which, in the view of Dodge & Cox, have positive prospects for long-term growth of principal and income not reflected in the current price. Prospective earnings, cash flow and dividends are considered in making these stock selections. The level of security prices and the trend of business activity are

considered in determining the total investment position of the Fund in equities at any time. Various other factors, including financial strength, economic condition, competitive advantage, quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities. The Fund's policies as described above may be changed without shareholder approval; however, these policies will not be changed without 60 days prior notice to shareholders.

The proportion of the Fund's assets held in the various fixed-income securities will be revised as appropriate in light of Dodge & Cox's appraisal of the economy, the relative yields of securities in the various market sectors, the investment prospects for issuers and other factors. In making investment decisions, Dodge & Cox will take many factors into consideration including yield-to-maturity, quality, liquidity, call risk, current yield and capital appreciation potential.

In an attempt to minimize unforeseen risks in holding the securities of a single issuer, the Fund seeks to provide investment diversification. Although there is no restriction on the number of changes in security holdings, purchases are made with a view to long-term holding and not for short-term trading purposes. (The Fund's portfolio turnover rates for the fiscal years ended December 31, 2005, 2004 and 2003 were 18%, 18% and 19%, respectively.) However, during rapidly changing economic, market and political conditions, portfolio turnover may be higher than in a more stable period. A higher turnover rate might result in increased transaction expenses and the realization of capital gains and losses (see **Federal Income Taxes**). It is the general practice of the Fund to invest mainly in equity securities listed on national securities exchanges and securities with ready markets.

## **Dodge & Cox Income Fund**

### **Investment Objectives and Principal Investment Strategies**

The Fund's primary objective is to provide shareholders with a high and stable rate of current income consistent with long-term preservation of capital. A secondary objective is to take advantage of opportunities to realize capital appreciation. These objectives may not be changed without shareholder approval. Investors should recognize that the market risks inherent in investment cannot be avoided, nor is there any assurance that the investment objectives of the Fund will be achieved.

The Fund seeks to achieve its objectives by investing in a diversified portfolio of fixed-income securities. Under normal circumstances, the Fund will invest at least 80% of its total assets in the

following: (1) debt obligations issued or guaranteed by the U.S. government, its agencies or GSEs; (2) investment-grade debt securities rated Baa or higher by Moody's, BBB or higher by S&P or Fitch or equivalently rated by any NRSRO, including U.S. dollar-denominated foreign issues and issues of supranational agencies; (3) unrated securities if deemed to be of investment-grade quality by Dodge & Cox; and (4) bankers' acceptances, bank certificates of deposit, repurchase agreements and commercial paper. At least 65% of the Fund's total assets will be invested in category (1) securities and in category (2) securities rated in the top three rating categories. The Fund will invest no more than 25% of its total assets in U.S. dollar-denominated securities of foreign issuers. Further information about specific investments is provided under **Additional Information on Investments**.

No more than 20% of the Fund's total assets may be invested in other fixed-income instruments including: debt obligations rated below investment grade if, in the opinion of Dodge & Cox, they are of suitable quality, provide attractive investment opportunities and have a minimum rating of B by Moody's, Fitch or S&P or equivalently rated by any NRSRO; preferred stock; and corporate bonds convertible into common stocks or carrying warrants to purchase common stock. It should be noted that securities rated Baa or BBB or below have speculative characteristics. Securities rated B may yield a higher level of current income than higher-quality securities, but generally have less liquidity, greater credit risk and more price volatility. An explanation of Moody's, Fitch's and S&P's rating categories is included in Appendix A to the SAI.

The proportion of the Fund's assets held in the various fixed-income securities will be revised as appropriate in light of Dodge & Cox's appraisal of the economy, the relative yields of securities in the various market sectors, the investment prospects for issuers and other factors. In making investment decisions, Dodge & Cox will take many factors into consideration including yield-to-maturity, quality, liquidity, call risk, current yield and capital appreciation potential.

The Fund attempts to achieve its secondary objective of capital appreciation through such techniques as fundamental research (i.e., seeking a security or group of securities which Dodge & Cox believes to be undervalued) and by making gradual adjustments in the average maturity of the Fund's portfolio.

The average maturity of the Fund's portfolio at any given time depends, in part, on Dodge & Cox's assessment of economic and market conditions and the relative yields of securities in the marketplace and Dodge & Cox's expectation regarding the future level of inflation and interest rates. Dodge & Cox normally invests

in an array of securities with short, intermediate and long maturities in varying proportions.

Purchases and sales of securities are generally made for long-term fundamental investment reasons rather than for short-term trading purposes. Nevertheless, Dodge & Cox may sell any of the securities in the Fund, regardless of the length of time held, in seeking to achieve the objectives of the Fund.

Moderate reserves in cash or short-term fixed-income securities may be held from time to time as Dodge & Cox may deem advisable. For temporary, defensive purposes, the Fund may invest, without limitation, in U.S. dollar-denominated money market securities. As a result of taking this defensive position, the Fund may not achieve its investment objectives.

In seeking to achieve the objectives of the Fund, Dodge & Cox may purchase securities on a when-issued basis, purchase or sell securities for delayed delivery and lend portfolio securities. The Fund's investment policies as set forth above may be changed without shareholder approval; however, these policies will not be changed without 60 days prior notice to shareholders.

Although there is no restriction on the number of changes in security holdings, purchases are made with a view to long-term holding and not for short-term trading purposes. (The Fund's portfolio turnover rates for the fiscal years ended December 31, 2005, 2004 and 2003 were 24%, 30% and 41%, respectively.) However, during rapidly changing economic, market and political conditions, portfolio turnover may be higher than in a more stable period. A higher turnover rate might result in increased transaction expenses and the realization of capital gains and losses (see Federal Income Taxes).

### Investment Restrictions

The Funds have adopted certain restrictions designed to achieve diversification of investment and to reduce investment risk. Each Fund may not: (a) invest more than 5% of the value of its total assets in the securities of any one issuer, nor acquire more than 10% of the voting securities of any one issuer; (b) concentrate investments of more than 25% of the value of its total assets in any one industry; (c) borrow money except as a temporary measure for extraordinary or emergency purposes; (d) make loans, except for the purchase of debt securities and for loans of portfolio securities by the Dodge & Cox International Stock and Income Funds. Restrictions (a) and (b) above do not apply to obligations issued or guaranteed by the U.S. government, its agencies or GSEs, or issues backed or collateralized by such obligations. The investment restrictions described in this paragraph and in the SAI may be changed only with the approval of that Fund's shareholders.

The percentage limitations included in the investment restrictions and elsewhere in this prospectus apply at the time of purchase of a security. So, for example, if a Fund exceeds a limit as a result of market fluctuations or the sale of other securities, it will not be required to dispose of any securities.

### Investment Risks

You should understand that all U.S. and foreign investments involve risks, and there can be no guarantee against loss resulting from an investment in the Funds, nor can there be any assurance that a Fund's investment objective(s) will be attained. There are further risk factors described elsewhere in this prospectus and in the SAI.

Investments in stocks are subject to market risks that cause their prices to fluctuate over time (i.e., the possibility that stock prices will decline over short or extended periods). Prices of fixed-income securities are sensitive to changes in the market level of interest rates. In general, as interest rates rise, the prices of fixed-income securities fall, and conversely, as interest rates fall, the prices of these securities rise. Yields on short, intermediate and long-term securities are dependent on a variety of factors, including the general conditions of the money and fixed-income securities markets, the size of a particular offering, the terms and conditions of the obligation (e.g., maturity, coupon, and call features), and the credit quality and rating of the issue. Debt securities with longer maturities tend to have higher yields and are generally subject to potentially greater volatility than obligations with shorter maturities and lower yields. Furthermore, because yield levels on securities vary with changing interest rates, no specific yield on shares of a Fund can be guaranteed. Since the Dodge & Cox Income Fund and the fixed-income portion of the Dodge & Cox Balanced Fund will be invested primarily in investment-grade debt securities, the Funds generally will not yield as high a level of current income as funds that invest primarily in lower-quality debt securities which generally have less liquidity, greater market risk and greater price volatility. The value of stocks and fixed-income securities may also be affected by changes in the financial condition of, and other events affecting, specific issuers. Fluctuations in the value of the securities in which a Fund invests will cause the Fund's share price to fluctuate. An investment in the Funds, therefore, may be more suitable for long-term investors who can bear the risk of short and long-term fluctuations in a Fund's share price.

After purchase by a Fund, a debt security may cease to be rated or its rating may be reduced below the minimum required for purchase by a Fund. Neither event will require a sale of such



security by a Fund. However, Dodge & Cox will consider such event in its determination of whether the Fund should continue to hold the security.

Foreign securities involve some special risks such as exposure to potentially adverse foreign political and economic developments; market instability; nationalization and exchange controls; potentially lower liquidity and higher volatility; possible problems arising from accounting, disclosure, settlement and regulatory practices that differ from U.S. standards; foreign taxes that could reduce returns; higher transaction costs and foreign brokerage and custodian fees; inability to vote proxies, exercise shareholder rights, pursue legal remedies and obtain judgments with respect to foreign investments in foreign courts; possible insolvency of a sub-custodian or securities depository; and the risk that fluctuations in foreign exchange rates will decrease the investment's value (although favorable changes can increase its value). These risk factors are increased by the Dodge & Cox International Stock Fund's investments in emerging markets.

The Dodge & Cox Balanced Fund, with its mixture of investments in common stocks and fixed-income securities, may entail less investment risk (and a potentially lower return) than a mutual fund investing only in common stocks.

Dodge & Cox follows a disciplined approach to investing in which investment ideas are considered by investment committees and decisions are applied to all eligible clients (including the Funds and separate account clients) within a particular strategy. This process involves establishment of target allocations and securities position limits that are applied across all relevant client portfolios. It is possible that certain investment opportunities that would be available to a smaller mutual fund may not be available to the Funds due to factors related to the size of the Funds, including the inability of the Funds to take significant positions in limited investment opportunities or the inability of the Funds to add significantly to or dispose of existing securities positions. Any of these factors could negatively impact the investment performance of the Funds.

### Disclosure of Portfolio Holdings

A complete description of the Funds' policies and procedures with respect to the disclosure of the Funds' portfolio securities is available in the SAI.

The Funds provide a complete list of their holdings four times in each fiscal year, as of the end of each quarter. The lists appear in the Funds' First Quarter, Semi-Annual, Third Quarter and Annual Reports to shareholders. The Funds file the lists with the SEC on

Form N-CSR (second and fourth quarters) and Form N-Q (first and third quarters). Shareholders may view the Funds' Forms N-CSR and N-Q on the SEC's website at [www.sec.gov](http://www.sec.gov). Forms N-CSR and N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-202-942-8090 (direct) or 1-800-SEC-0330 (general SEC number). A complete list of the Funds' quarter-end holdings is also available at [www.dodgeandcox.com](http://www.dodgeandcox.com) on or about 15 days following each quarter end and remains available on the web site until the list is updated for the subsequent quarter.

### Additional Information on Investments

**COMMON STOCKS (DODGE & COX STOCK FUND, DODGE & COX INTERNATIONAL STOCK FUND AND DODGE & COX BALANCED FUND)** Stocks represent shares of ownership in a company. After other claims are satisfied, common stockholders participate in company profits on a pro-rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities.

**PREFERRED STOCKS** Each Fund may invest in preferred stocks. Generally, a preferred stock has a specified dividend and ranks after bonds but before common stocks in its claim on income for dividend payments and on assets should the issuing company be liquidated.

**CONVERTIBLE SECURITIES** Each Fund may invest in debt or preferred equity securities convertible into or exchangeable for equity securities. Traditionally, convertible securities have paid dividends or interest at rates higher than common stocks but lower than nonconvertible securities. They generally participate in the appreciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree. In recent years, convertibles have been developed which combine higher or lower current income with other features.

**FOREIGN SECURITIES** Each Fund may invest in U.S. dollar-denominated securities of foreign issuers traded in the U.S. The Dodge & Cox International Stock Fund may also invest in foreign currency-denominated securities of foreign issuers. Such investments increase a portfolio's diversification and may enhance return, but they also involve some special risks.

**FOREIGN CURRENCIES — FORWARD CURRENCY CONTRACTS (DODGE & COX INTERNATIONAL STOCK FUND)** Many of the Fund's investments are denominated in foreign currencies. In managing

currency exposure, the Fund may enter into forward currency contracts. A forward currency contract involves an agreement to purchase or sell a specified currency at a specified future price set at the time of the contract. When the Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, it may desire to "lock in" the U.S. dollar price of the security. The Fund will only enter into forward contracts for hedging and not for purposes of speculation. Under normal market conditions, no more than 25% of the Fund's assets may be committed to currency exchange contracts.

**U.S. GOVERNMENT OBLIGATIONS** A portion of each Fund may be invested in obligations issued or guaranteed by the U.S. government, its agencies or GSEs. Some of the obligations purchased by a Fund are backed by the full faith and credit of the U.S. government and are guaranteed as to both principal and interest by the U.S. Treasury. Examples of these include direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes and bonds, and indirect obligations of the U.S. Treasury, such as obligations of the Government National Mortgage Association, the Small Business Administration, the Maritime Administration, the Farmers Home Administration and the Department of Veterans Affairs.

While the obligations of many of the agencies of the U.S. government are not direct obligations of the U.S. Treasury, they are generally backed indirectly by the U.S. government. Some of the agencies are indirectly backed by their right to borrow from the U.S. government, such as the Federal Financing Bank, the Federal Home Loan Banks and the U.S. Postal Service. Other agencies and GSEs are supported solely by the credit of the agency or GSE itself, but are given additional support due to the U.S. Treasury's authority to purchase their outstanding debt obligations. GSEs include, among others, the Federal Home Loan Banks, the Federal Farm Credit Banks, Freddie Mac and Fannie Mae. No assurance can be given that the U.S. government would provide support to GSEs, and these entities' securities are neither issued nor guaranteed by the U.S. Treasury.

Furthermore, with respect to the U.S. government securities purchased by the Fund, guarantees as to the timely payment of principal and interest do not extend to the value or yield of these securities, nor do they extend to the value of a Fund's shares. A Fund may invest in these securities if Dodge & Cox believes they offer an expected return commensurate with the risks assumed.

**MORTGAGE PASS-THROUGH SECURITIES (DODGE & COX BALANCED FUND AND DODGE & COX INCOME FUND)** Mortgage pass-through securities are guaranteed by an agency of the U.S. government or are issued by a private entity. These securities represent ownership in "pools" of mortgage loans and are called "pass-throughs" because principal and interest payments are passed through to security holders monthly. The security holder may also receive unscheduled principal payments representing prepayments of the

underlying mortgage loans. When a Fund reinvests the principal and interest payments, it may receive a rate of interest which is either higher or lower than the rate on the existing mortgage security.

During periods of declining interest rates there is increased likelihood that mortgage securities may be prepaid more quickly than assumed rates. Such prepayment would most likely be reinvested at lower rates. On the other hand, if the pass-through securities had been purchased at a discount, then such prepayment of principal may benefit the portfolio. Conversely, in a rising interest rate environment, mortgage securities may be prepaid at a rate slower than expected. In this case, the current cash flow of the bond generally decreases. A slower prepayment rate effectively lengthens the time period the security will be outstanding and may adversely affect the price and the price volatility of the security.

**COLLATERALIZED MORTGAGE OBLIGATIONS (DODGE & COX BALANCED FUND AND DODGE & COX INCOME FUND)** Collateralized mortgage obligations (CMOs) are private entity-, U.S. government agency- or GSE-issued multi-class bonds that are collateralized by U.S. government agency- or GSE-guaranteed mortgage pass-through securities. The issuer typically issues multiple classes, or "tranches", of bonds, the debt service of which is provided by the principal and interest payments from the mortgage pass-through securities in the trust. Each of these tranches is valued and traded separately based on its distinct cash flow characteristics. Dodge & Cox will purchase a tranche with the weighted-average life and cash flow characteristics that it believes will contribute to achieving the objectives of a Fund.

All CMOs purchased by a Fund will be issued or guaranteed by a U.S. government agency or GSE or have a AA or higher rating by either S&P, Fitch or Moody's or equivalently rated by any NRSRO. To qualify for this rating, a CMO is structured so that even under conservative default, prepayment and reinvestment assumptions, the principal and interest payments from the collateral are expected to meet or exceed the cash flow obligations of all the tranches of the CMO. However, there are risks associated with CMOs which relate to the risks of the underlying mortgage pass-through securities (i.e., an increase or decrease in prepayment rates, resulting from a decrease or increase in mortgage interest rates, will affect the yield, average life and price of CMOs). In a falling interest rate environment, the mortgage securities may be prepaid faster than the assumed rate. In this scenario, the prepayments of principal will generally be reinvested at a rate which is lower than the rate that the security holder is currently receiving. Conversely, in a rising interest rate environment, the mortgage collateral may be prepaid at a rate which is slower than the assumed rates. In this case, the current cash flow of the bond generally decreases. A reduced prepayment rate effectively lengthens the average life of the security and may adversely affect the price and price volatility of the security.